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If you have sold or transferred all your shares in Kingworld Medicines Group Limited, you should at once hand this circular and the accompanying form of proxy to the purchaser(s) or the transferee(s) or to the bank, licensed securities dealer or other agent through whom the sale or transfer was effected for transmission to the purchaser(s) or transferee(s).

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KINGWORLD MEDICINES GROUP LIMITED

金活醫藥集團有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code : 01110)

MAJOR TRANSACTION IN RELATION TO THE ACQUISITION OF 55% EQUITY INTEREST IN SHENZHEN DONG DI XIN TECHNOLOGY COMPANY LIMITED* AND NOTICE OF EXTRAORDINARY GENERAL MEETING

A letter from the Board is set out on pages 9 to 34 of this circular.

A notice convening the Extraordinary General Meeting to be held at the Conference Room, Units 1906-1907, 19th Floor, Shui On Centre, 6-8 Harbour Road, Wanchai, Hong Kong, at 11:00 a.m. on Friday, 23 January 2015 is set out on pages 124 to 125 of this circular. Whether or not you intend to attend the Extraordinary General Meeting, you are requested to complete the enclosed form of proxy in accordance with the instructions printed thereon and return the same to the Company's branch share registrar in Hong Kong, Tricor Investor Services Limited at Level 22, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong as soon as practicable, and in any event not later than 48 hours before the time appointed for holding the Extraordinary General Meeting or any adjournment thereof (as the case may be). Completion and return of the form of proxy will not preclude you from attending and voting in person at the Extraordinary General Meeting or any adjourned meeting (as the case may be) should you so wish.

* For identification purpose only

31 December 2014

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DEFINITIONS

In this circular, the following expressions have the following meanings, unless the context requires otherwise:

“Accountant’s Report”	means the accountant’s report on the Target Group as set out in Appendix II to this circular
“Affiliate(s)”	with respect to any person, another person directly or indirectly controlling that person or being controlled by that person, or a person who is under the common direct or indirect control with that person (where “control” means the power to directly or indirectly direct the management and decision-making of a person, whether through ownership or voting rights, contract or otherwise, and “controlling” and “being controlled” shall be construed accordingly). For the avoidance of doubt, an Affiliate of the Purchaser includes the Company and its subsidiaries
“Agreement of Intent”	the non-legally binding agreement of intent dated 3 May 2014 entered into between the Company and Zhao Zhigang (for himself and for and on behalf of Zhao Wen) in relation to the Transactions
“Adjusted 2013 Net Profit”	net profit of the Target Group for the year ended 31 December 2013 determined by adjusting the Unadjusted 2013 Net Profit by the Adjustment
“Adjusted Audited Accounts”	audited consolidated financial statements of the Target Group for the year ended 31 December 2013 which have been prepared based on the HKFRS and adjusted by the Adjustment, and in form and substance approved by the Purchaser
“Adjustment”	retrospective adjustment made in accordance with the HKFRS to the audited consolidated financial statements of the Target Company, Dundex Medical and Zhilang Jinggong for the year ended 31 December 2013 for the purpose of reflecting the Reorganisation and the difference between the PRC GAAP and the HKFRS
“Announcements”	the announcements of the Company dated 8 May 2014, 31 July 2014, 30 September 2014 and 25 November 2014 respectively in relation to, amongst others, the Cooperation Agreement and the transactions contemplated thereunder
“Auditor”	the auditing firm in Hong Kong engaged by the Company
“Board”	the board of directors of the Company

DEFINITIONS

“Business Day(s)”	any day other than Saturday, Sunday, public holiday in the PRC or days on which normal commercial banks in the PRC have the right to or must close for banking business in accordance with the laws of the PRC
“Business Licence”	the enterprise legal person business licence (營業執照) of the Target Company in compliance with the business scope as issued, amended and replaced from time to time by the Industry and Commerce Authority
“BVI”	the British Virgin Islands
“Caretalk”	Caretalk Technology Co., Ltd., a limited liability company incorporated in the BVI, 100% issued capital of which is legally and beneficially owned by Dundex Medical as at the Latest Practicable Date
“Company”	Kingworld Medicines Group Limited (金活醫藥集團有限公司), a company incorporated in the Cayman Islands with limited liability, the shares of which are listed on the Main Board of the Stock Exchange
“Company Acquisition”	has the meaning ascribed to it under the section headed “Material Changes” in Appendix I to this circular
“Company Transfer”	has the meaning ascribed to it under the section headed “Material Changes” in Appendix I to this circular
“Completion Date”	the date on which the Purchaser is registered by the Industry and Commerce Authority as the shareholder holding 55% of the equity interest in the Target Company in accordance with the Equity Transfer Agreement and the Target Company obtains the sino-foreign joint venture business licence, which shall not be later than the Long Stop Date
“Condition(s) Precedent”	any or all of the conditions precedents set out in the section headed “Conditions precedent to the completion of the Equity Transfer” in the letter from the Board in this circular
“connected person(s)”	has the meaning ascribed to it under the Listing Rules
“connected transaction(s)”	has the meaning ascribed to it under the Listing Rules
“Cooperation Agreement”	the cooperation agreement dated 8 May 2014 entered into among the Purchaser, the Target Company and the Vendors in relation to the Transactions (as supplemented and amended from time to time)

DEFINITIONS

“CP Fulfillment Date”	31 January 2015 (or such other date as the parties to the Cooperation Agreement may agree in writing)
“Director(s)”	the director(s) of the Company
“Dundex Medical”	Dundex Medical (H.K.) Limited, a company incorporated in Hong Kong, 100% issued capital of which is legally and beneficially owned by the Target Company as at the Latest Practicable Date
“Enlarged Group”	the Group immediately after completion of the Equity Transfer
“Equity Transfer”	the transfer of 55% equity interest from Zhao Zhigang to the Purchaser pursuant to the Cooperation Agreement
“Equity Transfer Agreement”	the equity transfer agreement to be entered into among the Purchaser and the Vendors in such form and substance agreed between the Purchaser and the Vendors in relation to the Equity Transfer, the terms thereof shall not substantively contradict with the Cooperation Agreement
“Extraordinary General Meeting”	the extraordinary general meeting of the Company proposed to be convened, and any adjournment thereof, for the purpose of approving the Cooperation Agreement and the transactions contemplated thereunder
“First MOU”	the non-binding (save for several clauses mainly in relation to earnest money, exclusivity, confidentiality and governing law) memorandum of understanding dated 23 February 2014 entered into amongst the Purchaser, Wu Hu Medicine, Mr. Wang and Ms. Wang in respect of, amongst other things, the Company Acquisition, establishment of the Joint Venture Company, the Remaining Assets Acquisition and the Company Transfer
“Golden Land”	Golden Land International Limited (金國國際有限公司), a limited liability company incorporated in the BVI and wholly owned by Mr. Zhao as at the Latest Practicable Date
“Golden Morning”	Golden Morning International Limited (金晨國際有限公司), a limited liability company incorporated in the BVI and wholly owned by Ms. Chan as at the Latest Practicable Date
“Group”	the Company and its subsidiaries
“Guaranteed Profits”	has the meaning ascribed to it under the section headed “Profits guaranteed by the Vendors” in this circular
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC

DEFINITIONS

“HKD” or “HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“HKFRS”	Hong Kong Financial Reporting Standards
“Industry and Commerce Authority”	the State Administration for Industry and Commerce, or its local division or any successor government institution or agency empowered to issue the Business Licence
“Independent Third Parties”	to the best of the Directors’ knowledge, information and belief after having made all reasonable enquiries, any third party(ies) that is (are) independent of the Company and its connected persons
“Joint Venture Agreement”	the joint venture agreement in relation to the Target Company to be entered into among the Purchaser and the Vendors in such form and substance agreed between the Purchaser and the Vendors, the terms thereof shall not substantively contradict with the Cooperation Agreement
“Joint Venture Company”	has the meaning ascribed to it under the section headed “Material Changes” in Appendix I to this circular
“Latest Practicable Date”	29 December 2014, being the latest practicable date for ascertaining certain information referred to in this circular prior to the printing of this circular
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Lock-up Period”	the three-year period commencing from (and including) the Completion Date
“Long Stop Date”	30 March 2015 (or such other date as the parties to the Cooperation Agreement may agree in writing)
“Material Adverse Effect”	any fact, incident, change or effect or reasonable expectation on the operation, business, assets, obligation, financial status or operation result of any member of the Target Group that causes the direct loss equivalent or exceeding 10% of the net assets of that member of the Target Group
“Min Kang”	Chang De Shi Min Kang Pharmaceutical Chain Stores Limited Company* (常德市民康藥號連鎖有限公司), a limited liability company established in the PRC
“Model Code”	the Model Code for Securities Transactions by Directors of Listed Issuers, as set out in Appendix 10 to the Listing Rules
“MOU”	the First MOU as supplemented and amended by a supplemental memorandum of understanding dated 28 February 2014

DEFINITIONS

“Mr. Zhao”	Zhao Li Sheng (趙利生), the chairman, an executive Director and co-founder of the Company and the sole shareholder of Golden Land
“Ms. Chan”	Chan Lok San (陳樂榮), an executive Director and co-founder of the Company and the sole shareholder of Golden Morning
“Mr. Wang”	Wang Wei Jie* (王偉傑)
“Ms. Wang”	Wang Yu Xia* (王玉霞)
“Net Profit”	the consolidated net profit after tax of the Target Group generated from its business operations for such period as shown in the audited consolidated financial statements of the Target Group prepared and issued by the Auditor based on the HKFRS for a specific period
“PRC”	the People’s Republic of China, and for the purposes of this circular only, excluding Hong Kong, the Macau Special Administrative Region of the People’s Republic of China and Taiwan
“PRC GAAP”	the Generally Accepted Accounting Principles of the PRC
“Purchaser”	Kingworld (Hong Kong) Holdings Limited (金活(香港)控股有限公司), a limited liability company incorporated under the laws of Hong Kong and an indirect wholly-owned subsidiary of the Company
“Purchaser Reimbursed Amount”	has the meaning ascribed to it under the section headed “Profits guaranteed by the Vendors” in the letter of the Board in this circular
“Regions”	Hong Kong, the PRC and other regions where members of the Target Group and/or the Group carry on business from time to time
“Relevant Period”	each of the three years ended 31 December 2011, 2012 and 2013 and the period for the six months ended 30 June 2014
“Remaining Assets Acquisition”	has the meaning ascribed to it under the section headed “Material Changes” in Appendix I to this circular
“Reorganisation”	the acquisition by Dundex Medical of 100% of the issued shares in Caretalk from Zhao Zhigang

DEFINITIONS

“Restricted Business”	any business in the Regions that may be directly or potentially be in competition with that of any member of the Target Group and/or the Group, which includes without limitation, research and development, manufacturing, procurement, wholesaling and retailing of medicines, medical devices, healthcare food and ordinary food
“RMB”	Renminbi, the lawful currency of the PRC
“SAFE”	the State Administration of Foreign Exchange
“SFO”	Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“SME-FRS”	the Small and Medium-sized Entity Financial Reporting Standard issued by the Hong Kong Institute of Certified Public Accountants
“Shareholders”	the holders of the Shares
“Shares”	ordinary share(s) of HK\$0.10 each in the share capital of the Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“SZ Industry”	Shenzhen Kingworld Industry Company Limited* (深圳市金活實業有限公司), a limited liability company established in the PRC
“SZ Kingworld”	Shenzhen Kingworld Medicine Company Limited* (深圳市金活醫藥有限公司), a limited liability company established in the PRC
“Target Co Reimbursed Amount”	has the meaning ascribed to it under the section headed “Profits guaranteed by the Vendors” in the letter of the Board in this circular
“Target Company”	Shenzhen Dong Di Xin Technology Company Limited* (深圳市東迪欣科技有限公司), a limited liability company established in the PRC
“Target Group”	the Target Company and its subsidiaries and, for the purpose of the Cooperation Agreement, include Caretalk (each being a “member of the Target Group”)

DEFINITIONS

“Target Value”	the lesser of: (1) the Adjusted 2013 Net Profit multiplied by a factor of 13; and (2) RMB364,000,000
“Transactions”	the transactions contemplated under the Transaction Documents
“Transaction Documents”	(1) the Cooperation Agreement; (2) the Equity Transfer Agreement; (3) the Joint Venture Agreement; and (4) the articles of association of the Target Company which takes effect from the Completion Date
“Unadjusted 2013 Net Profit”	the sum of: (1) audited net profits of the Target Company for the year ended 31 December 2013 prepared based on the PRC GAAP; (2) audited net profits of Zhilang Jinggong for the year ended 31 December 2013 prepared based on the PRC GAAP; and (3) audited net profits of Dundex Medical for the year ended 31 December 2013 prepared based on the SME-FRS
“Undistributed Profit”	the distributable profit generated from the business operated by the Target Group and not yet distributed to their respective shareholders
“US\$”	US dollars, the lawful currency of the United States of America
“Vendors”	Zhao Zhigang and Zhao Wen individually and collectively
“Wu Hu Medicine”	Wu Hu ZhangHengChun Medicine Co., Ltd.* (蕪湖張恒春藥業有限公司), a limited liability company established in the PRC
“Wu Hu Pharmaceuticals”	Wu Hu ZhangHengChun Pharmaceuticals Co., Ltd.* (蕪湖張恒春醫藥有限公司), a limited liability company established in the PRC

DEFINITIONS

“Zhao Wen”	Ms. Zhao Wen (趙雯), the holder of 30% of the equity interest in the Target Company as at the Latest Practicable Date
“Zhao Zhigang”	Mr. Zhao Zhigang (趙志剛), the chairman and holder of 70% of the equity interest in the Target Company as at the Latest Practicable Date
“Zhilang Jinggong”	Shenzhen Zhilang Jinggong Technology Company Limited* (深圳市志朗精工科技有限公司), a limited liability company incorporated in the PRC and owned as to 51% by the Target Company and 49% in aggregate by four individuals as at the Latest Practicable Date
“%”	per cent

For the purpose of this circular, unless otherwise specified or the context requires otherwise, “” denotes an English translation of a Chinese name and is for identification purpose only. In the event of any inconsistency, the Chinese names shall prevail.*

For the purpose of this circular, the exchange rate of HK\$1.00 = RMB0.786 have been used for currency translation, where applicable. Such exchange rates are for illustrative purposes and do not constitute representations that any amount in HK\$ or RMB has been, could have been or may be converted at such a rate.

LETTER FROM THE BOARD



KINGWORLD MEDICINES GROUP LIMITED

金活醫藥集團有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code : 01110)

Executive Directors:

Mr. Zhao Li Sheng

Ms. Chan Lok San

Mr. Zhou Xuhua

Mr. Lin Yusheng

Non-executive Director:

Mr. Zhang Yi

Independent Non-executive Directors:

Mr. Duan Jidong

Mr. Zhang Jianbin

Mr. Wong Cheuk Lam

Registered Office:

Appleby Trust (Cayman) Ltd.

Clifton House

75 Fort Street

PO Box 1350

Grand Cayman

KY1-1108

Cayman Islands

Principal Place of Business in Hong Kong:

Units 1906-1907, 19th Floor

Shui On Centre

6-8 Harbour Road

Wanchai

Hong Kong

31 December 2014

To the Shareholders

Dear Sir or Madam,

**MAJOR TRANSACTION
IN RELATION TO THE ACQUISITION OF 55% EQUITY
INTEREST IN SHENZHEN DONG DI XIN TECHNOLOGY
COMPANY LIMITED*
AND
NOTICE OF EXTRAORDINARY GENERAL MEETING**

INTRODUCTION

Reference is made to the Announcements.

As disclosed in the Announcements, the Purchaser, the Target Company and the Vendors entered into the Cooperation Agreement on 8 May 2014 (and further supplemented and amended on 31 July

LETTER FROM THE BOARD

2014, 30 September 2014 and 25 November 2014), pursuant to which, the Purchaser has conditionally agreed to acquire, and the Vendors have conditionally agreed to transfer 55% equity interest in the Target Company for an aggregate consideration equivalent to 55% of the Target Value. As at the Latest Practicable Date, the Target Company is wholly-owned by the Vendors as to 70% by Zhao Zhigang and 30% by Zhao Wen. Zhao Zhigang is the father of Zhao Wen. Upon completion of the Equity Transfer, equity interest in the Target Company will be owned as to 55% by the Purchaser and as to 45% by the Vendors in aggregate, and the Target Company will become a 55% indirectly owned subsidiary of the Company. Further details in respect of the Cooperation Agreement are set out in the section headed “The Cooperation Agreement” of this letter.

The main purpose of this circular is to provide you with, among other things:

- (a) details of the Cooperation Agreement and the transactions contemplated thereunder as set out in this circular;
- (b) financial information on the Group;
- (c) an accountants’ report of the Target Group;
- (d) management discussion and analysis and other financial information of the Target Group;
- (e) the unaudited pro forma financial information of the Enlarged Group; and
- (f) notice of the Extraordinary General Meeting.

THE COOPERATION AGREEMENT

Date: 8 May 2014 (after trading hours) (and further supplemented and amended on 31 July 2014, 30 September 2014 and 25 November 2014)

Parties: (i) the Purchaser;
(ii) the Target Company;
(iii) Zhao Zhigang; and
(iv) Zhao Wen.

To the best of the Directors’ knowledge, information and belief, having made all reasonable enquiries, as at the Latest Practicable Date, each of the Target Company and the Vendors is a third party independent of the Company and its connected persons.

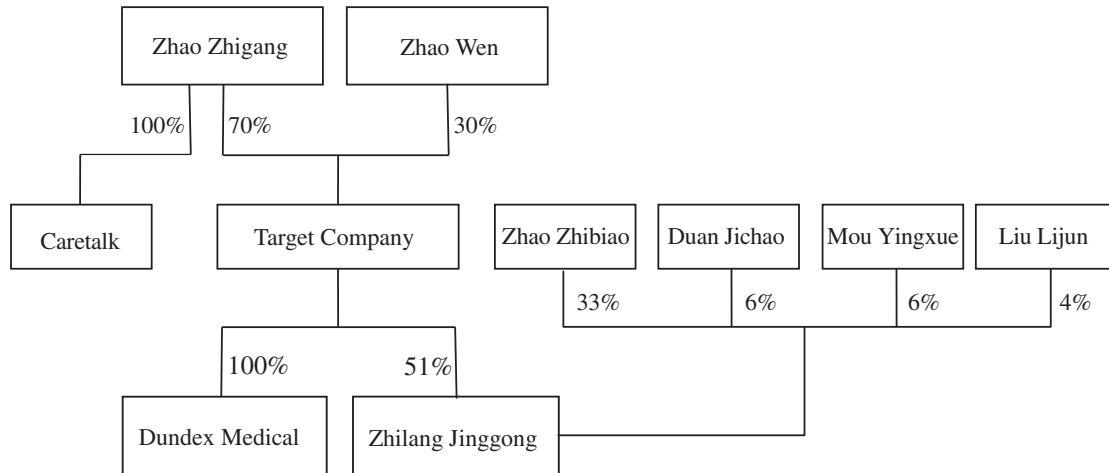
The Reorganisation

Pursuant to the Cooperation Agreement, the Vendors shall procure Dundex Medical to purchase, and Zhao Zhigang to sell, 50,000 ordinary shares (representing 100% of the issued shares) in Caretalk for a total consideration of US\$50,000 (which is based on the total issued share capital of Caretalk) and on such terms and conditions as the Purchaser may agree.

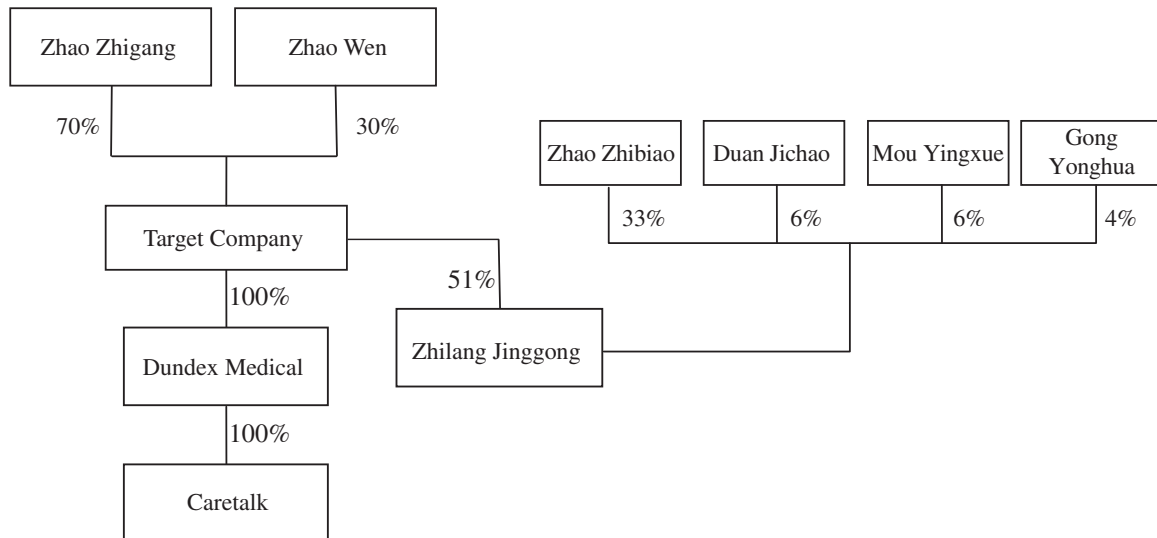
LETTER FROM THE BOARD

As at the Latest Practicable Date, the Reorganisation has been completed, and the 100% issued capital of Caretalk is legally and beneficially owned by Dundex Medical.

Below is the chart showing the structure of the Target Group before the Reorganisation:



Below is the chart showing the structure of the Target Group after the Reorganisation:



Note:

1. Zhao Zhibiao is the brother of Zhao Zhigang. Duan Jichao, Mou Yingxue, Liu Lijun and Gong Yonghua are Independent Third Parties.
2. The principal activities of Caretalk are the sale and distribution of electrotherapeutic and physiotherapeutic devices and general medical examination devices manufactured by the Target Company.
3. Dundex Medical has not commenced business.
4. The principal activities of Zhilang Jinggong are manufacturing and sales of plastic injection components for electrotherapeutic and physiotherapeutic devices and general medical examination devices.

LETTER FROM THE BOARD

Caretalk is the overseas distribution agent of the Target Company's products, engaging in the market development in Europe and North America for the Target Company. The major services provided by Caretalk to the Target Company includes delivering product planning, launching promotions, providing after-sales service and extending customer base through participating overseas exhibitions and making client visits.

In the Relevant Period, Caretalk had introduced two valuable customers to the Target Company. These two customers account for a significant portion of the Target Company's annual sales revenue.

The first customer, which is referred to as "Customer A" in the section headed "Information about major customers" in the Accountant's Report, was established in 1993 and its major business is in North America. This customer is engaging in distributing and selling of medical devices. It has its own distribution network. The main products that the Target Group is selling to this customer are electronic pain killer and muscle relaxer.

The second customer, which is referred to as "Customer B" in the section headed "Information about major customers" in the Accountant's Report, was established in 1997 and its major business is in Europe. This customer is engaging in distributing and selling of medical devices. It has its own retail network. The main products that the Target Group is selling to this customer are electronic thermal thermometer and muscle relaxer.

Having considered the above, the Directors are of the view that the Reorganisation is of significance for the business growth and development of the Target Company and can enhance the overall cohesion and integrity of the business of the Target Group.

Assets to be acquired

Subject to completion of the Reorganisation and fulfillment (or waiver if applicable) of the other Conditions Precedent, the Purchaser has conditionally agreed to acquire and the Vendors have conditionally agreed to transfer 55% equity interest in the Target Company, of which Zhao Zhigang will transfer 55% equity interest in the Target Company.

The Company wants to obtain controlling power over the Target Group. Therefore, the Company agreed to acquire more than 50% of equity interest in the Target Company. The acquisition of 55% equity interest in the Target Group is a mutual commercial arrangement.

Through controlling the majority of the board of the Target Company and the key management positions of the Target Company, the Purchaser can secure its interest in the Target Company.

Currently, the Company has no plan for further acquisition of equity interest in the Target Group.

Consideration

The consideration for the Equity Transfer is equivalent to 55% of the Target Value. The Target Value refers to the lesser of: (1) the Adjusted 2013 Net Profit multiplied by a factor of 13; and (2)

LETTER FROM THE BOARD

RMB364,000,000. The factor of 13 is determined, through negotiation between the Purchaser and the Vendors, with reference to the price-to-earnings ratios of companies engaging in businesses of the same industry of the Target Group around the period of when the Cooperation of Agreement was executed, for the details, please refer to the section headed “Basis of Consideration” below. Further, RMB364,000,000 was determined by multiplying the factor of 13 with the sum of the audited or unaudited profit / loss after taxation of the members of the Target Group, including Target Company, Zhilang Jinggong, Dundex Medical and Caretalk, prepared based on the PRC GAAP or SME-FRS for the year ended 31 December 2013 of approximately RMB 28 million as disclosed in the announcement of the Company dated 8 May 2014.

Given that the Adjusted 2013 Net Profit has now been confirmed at RMB 26,484,880, the consideration for the Equity Transfer shall therefor be RMB 189,366,892 (i.e. RMB 26,484,880 x 13 x 55%). The difference between the 2013 profit of accountants’ report and Adjusted 2013 Net Profit is income tax.

The consideration for the Equity Transfer will be paid by the Purchaser to the Vendors as soon as possible after the Completion Date and not later than 5 Business Days following the date on which the Vendors notify the Purchaser that the Vendors have opened a designated assets realisation account with the PRC foreign exchange authority.

The total consideration payable by the Purchaser for the Equity Transfer will be funded by internal financial resources of the Group and banking facilities.

No variation to the remuneration payable to and benefits in kind receivable by the directors of the Purchaser will be resulted from the transactions contemplated under the Cooperation Agreement.

Basis of consideration

The consideration for the Equity Transfer was arrived at after arm’s length negotiations between the Purchaser and the Vendors with reference to (among others):

- (i) the Guaranteed Profits provided by the Vendors for the forthcoming years ending 31 December 2014, 2015, 2016 and 2017;
- (ii) the estimated Adjusted 2013 Net Profit of approximately RMB28,000,000, which was determined based on the financial accounts of the Target Group which were available to the Purchaser as at the date of the announcement of the Company dated 8 May 2014;
- (iii) the reasons for and benefits of the Equity Transfer as described in the paragraph headed “Reasons for and benefits of entering into the Cooperation Agreement” in this letter; and

LETTER FROM THE BOARD

- (iv) the price-to-earnings ratios of companies engaging in the business of manufacturing and sale of medical devices in the PRC and are listed on the Stock Exchange or the Shenzhen Stock Exchange as set out in the table below:

Medical Equipments and Services

H Shares (HK\$)

No.	Name	Closing Price (30 April 2014)	Share Capital (in 10 Thousand)	Net Profit (in 10 Thousand) (in 2013)	Price Earnings Ratio (Times)	Business Overview
01066.HK	WEIGAO GROUP	7.80	447,640	48,459	72.05	Research and develop, produce and sell disposable medical equipment. Include: i) consumables (infusion sets, syringes, medical needles, blood bags, pre-filled syringes, blood sampling products and other consumables); ii) Orthopaedic products; and iii) blood purification consumables and equipments
01358.HK	PW MEDTECH	3.62	167,690	11,375	53.37	Focused on medical equipment industry, with infusion sets and orthopaedic implants as its main products
01302.HK	LIFETECH SCI	11.14	50,000	-8,173	N/A	The group is principally engaged in developing, manufacturing and trading advanced minimally invasive interventional medical devices for cardiovascular and peripheral vascular diseases and disorders.
00853.HK	MICROPORT	5.25	142,220	18,566	40.22	The group mainly supplies cardiovascular and other vascular devices, and a diabetes device, with second generation drug-eluting cobalt-chromium stent as its main product.

A Shares (RMB)

No.	Name	Closing Price (Complex Before Right) (30 April 2014)	Share Capital (in 10 Thousand)	Net Profit (in 10 Thousand) (in 2013)	Price Earnings Ratio (Times)	Business Overview
002223.SZ	Yuwell	23.81	53,161	25,856	49	The company is the professional manufacturer specializing in medical devices in respect of rehabilitation nursing, medical oxygen supply and medical clinical series. Currently, of its six top-selling products, each of the five products, i.e. oxygenators, atomizers, sphygmomanometers, stethoscopes and ultra-mild oxygen valves.

LETTER FROM THE BOARD

Medical Equipments and Services				
300003.SZ Lepu Medical	21.44	81,200	36,665	47 The company is a new high-tech enterprise specialized in the research and development, manufacturing and marketing of medical devices for interventional treatment of cardiovascular diseases, such as coronary stents, congenital heart occluders, heart valves and angiographic equipment, as well as cardiovascular drugs.
600587.SZ SHINVA	34.39	40,314	26,647	52 The company is a large-scale comprehensive enterprise combined with the design, research and development, manufacturing and marketing of products, which can be divided into ten categories: infection control products, sterilization and detection products, radiation therapy products, x-ray diagnostic products, pharmaceutical equipment, surgical instruments, disposable medical supplies, air purification products, dental equipment, medical environmental protection equipment.
300298.SZ Sinocare	33.95	20,006	16,530	41 The company is a new high-tech enterprise specialized in the research and development, manufacturing and marketing of POCT products by using the bio-sensor technology, which focuses on the popularity of glucose meter and promotes the development of blood glucose management in China
300246.SZ Biolight	22.88	14,608	3,055	109 The company is a modernized new high-tech enterprise combined with the research and development, manufacturing and marketing of products. Its key products is medical monitors covering a variety of products from low-end to high-end. It has developed a variety of digital ECG machines, fetal monitors and pulse oximeters as well as a central monitoring system and softwares that ensures the operation of other devices.
The average price-earnings ratio				58

The Directors consider that compared to private companies, the data of listed companies are public, accurate and worthy of reference and comparison; therefore, the Directors have selected companies which have business mode similar to that of the Target Company and prepared the comparison table. Other than those listed in the table, the Directors have not identified any other companies with similar business to that of the Target Company.

LETTER FROM THE BOARD

As shown in the table above, the Directors found that the average price-to-earnings ratio of companies engaging in business of medical equipment and services is on a multiple of 58, with the highest on a multiple of 109 and the lowest on the multiple of about 41.

Taking into account factors including that the Target Group is a small scale private enterprise, the Purchaser was able to negotiate on an arm's length basis with the Vendors and achieve considerable discount in respect of valuation of the Target Group. Such discount reduces acquisitions costs and is in the benefit of the Company and its shareholders.

Having considered the above, and the fact that the companies listed in the table is exhaustive, the Directors are of the view that the comparison is fair and reasonable for providing a reference point for arm's length negotiation with the Vendors, and the price-to-earning ratio of 13 is the best discount which the Vendors can offer to the Purchaser after their negotiations in view of the discount factors for private company and scale of the Target Company.

Conditions precedent to the completion of the Equity Transfer

Completion of the Equity Transfer is conditional upon the fulfillment (or waiver in accordance with the terms of the Cooperation Agreement) of the following Conditions Precedent:

- (1) the Purchaser has obtained all the necessary consents, licences, authorisations and approvals from the board of directors, general meeting, the relevant governmental or regulatory institutions, authorities or bodies or any other third parties (including banks and/or financial institutions) in relation to the Transactions and the Transaction Documents, including but not limited to the passing by shareholders of all resolution(s) required under the Listing Rules to approve the Cooperation Agreement and the transactions contemplated thereunder at the Extraordinary General Meeting;
- (2) the Vendors, the Target Company and Caretalk have obtained all the necessary consents, licences, authorisations and approvals in relation to the Transactions and the Transaction Documents, including but not limited to all consents, licences, authorisations and approvals from the board of directors, general meeting, the relevant governmental or regulatory institutions, authorities or bodies or any other third parties (including banks and/or financial institutions);
- (3) approval by the Purchaser of the due diligence investigation results in relation to, including but not limited to, the corporate, assets, liabilities, contracts and business information of the Target Group;
- (4) Dundex Medical and Zhao Zhigang have legally and validly completed the Reorganisation in accordance with the terms and conditions as agreed by the Purchaser and Dundex Medical has become the direct legal and beneficial owner of 100% issued shares in Caretalk;

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- (5) the Target Company has delivered to the Purchaser the following documents:
- (i) copy (certified by a director of Caretalk) of updated register of members of Caretalk showing that Dundex Medical is the sole shareholder of Caretalk;
 - (ii) copy (certified by a director of Caretalk) of share certificate of the shares in Caretalk held by Dundex Medical; and
 - (iii) updated certificate of good standing and certificate of incumbency issued by Caretalk's registered agent in the British Virgin Islands;
- (6) the Purchaser has approved the Adjusted Audited Accounts and the Adjusted 2013 Net Profit is greater than zero;
- (7) none of the equity interest, assets or business of any member of the Target Group is subject to any Material Adverse Effect as at the Completion Date;
- (8) the equity interest of all member of the Target Group are true, lawful, free from encumbrance and transferrable as at the Completion Date;
- (9) the title in the assets of any member of the Target Group is true, lawful, free from encumbrance and transferrable as at the Completion Date;
- (10) none of the Vendors and the Target Company has breached any of their warranties as stipulated in the relevant Transaction Documents as at the Completion Date;
- (11) none of the Vendors and the Target Company has breached any of their obligations as stipulated in the relevant Transaction Documents as at the Completion Date;
- (12) save for any undistributed profits which are restricted from distribution pursuant to the terms of the Cooperation Agreement, any amount payable to or receivable from any shareholder of any member of the Target Group or any other receivables or payables of non-trade nature of the Target Group has been fully settled as at the Completion Date; and
- (13) each of the Vendors has transferred their respective equity interest in the Target Company to the Purchaser at the same time.

Other than Conditions Precedent (1) and (2) above, any of the above Conditions Precedent can be waived in writing by the Purchaser.

The Purchaser (in respect of Condition Precedent (1) above) and the Vendors (in respect of the other Conditions Precedent) shall use their reasonable efforts to procure that Conditions Precedent (1) to (6) above are fulfilled not later than the CP Fulfillment Date and Conditions Precedent (7) to (13) above are fulfilled not later than the Completion Date.

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If the Conditions Precedent are not fully satisfied (or waived in accordance with the terms of the Cooperation Agreement) by the CP Fulfillment Date, or if completion of the Equity Transfer does not take place by the Long Stop Date, the Cooperation Agreement may be terminated by the Purchaser. For details on the termination of the Cooperation Agreement, please refer to the section headed “Termination” in this letter.

The Directors of the Company have no intention to waive any of the Conditions Precedent except for Condition Precedent no. (10) and (13).

As to the Condition Precedent no. (10) above, Vendors and the Target Company has provided a number of warranties in favour of the Purchaser under the Transaction Documents, including but not limited to the warranties of having no substantial labour dispute in the Target Group, having due legality in carrying out business within the approved business scope of the Target Group and having obtained the using right of premises under the tenancies of the Target Group. The Directors would like to keep some flexibility to impose the warranties obligations on the Vendors and the Target Company, so as to avoid the non-fulfilment of this Condition Precedent due to any minor or remediable breach of warranties. In exercising the discretion to waive any compliance with this Condition Precedent, the Directors will act in accordance with their director’s duties owed to the Company and the Shareholders as a whole, including but not limited to acting in good faith for the benefit of the Company and the Shareholders as a whole using power for proper purpose, exercising care, skill and diligence. The Directors of the Company confirm that they will not provide any waiver under this Condition Precedent which, in their reasonable opinion, may be material to the Cooperation Agreement and the transactions contemplated thereunder, and if necessary, they will impose condition for giving any waiver such as obtaining deed of indemnity from the Vendors.

As to the Condition Precedent no. (13) above, the Purchaser, the Target Company and the Vendors had entered into a supplemental agreement to the Cooperation Agreement on 25 November 2014, pursuant to which, Zhao Zhigang shall transfer 55% equity interest in the Target Company to the Purchaser, and as a result, Zhao Wen will no longer be required to transfer to the Purchaser any of the equity interest in the Target Company held by her. The further details of this supplemental agreement can be referred to the announcement of the Company dated 25 November 2014. As a result, the Directors will waive this Condition Precedent to the extent that this Condition Precedent shall only apply to Zhao Zhigang.

The Directors of the Company, having considered the latest financial, business and legal due diligences of the Target Group, the Directors of the Company are of the view that there are no material issues or risks which may have any adverse effect on the Target Group’s business, financial and legal positions, or which may have any adverse impact to the Cooperation Agreement and the transactions contemplated thereunder as at the Latest Practicable Date.

LETTER FROM THE BOARD

Compliance with laws and regulations in the Relevant Period

The Company has taken the following action to check if Dundex Medical and/or Caretalk have breached the laws and regulations in Hong Kong in the Relevant Periods:

- (a) a due diligence checklist had been provided to the Vendors requesting them to confirm whether Dundex Medical and/or Caretalk have been involved in any actual or threatened litigation, arbitration or other disputes or proceedings (including that of a liquidation, receivership, criminal, civil, governmental, regulatory, administrative or taxation nature) since its incorporation; and the Vendors replied in writing to confirm that there had not been none of the aforesaid matters; and
- (b) on 6 August 2014, the Company had appointed an agent to conduct Hong Kong civil, criminal and bankruptcy searches against Dundex Medical and Caretalk, and the searching results were all clean.

The Company has taken the following action to check if the Target Company and its PRC subsidiary Zhilang Jinggong have breached the laws and regulations in PRC in the Relevant Periods:

- (a) an initial due diligence checklist and two follow-up supplemental checklists have been prepared by the Company's PRC legal counsel requesting the Target Company and its PRC subsidiary Zhilang Jinggong to provide documents regarding (including but not limited to) the legal status, qualifications/permits/approvals acquired, conditions of tax and social security, material contracts, real estate, intellectual property, environment protection, and litigations/arbitration/other disputes of the two PRC companies.

According to the PRC legal due diligence report issued by the Company's PRC legal counsel dated 23rd July, 2014 and confirmation letters both dated 23rd July, 2014 provided by the Target Company and Zhilang Jinggong, the Target Company and Zhilang Jinggong have been complied with all material aspects of the relevant requirements in accordance with the applicable PRC laws during the Relevant Period.

Based on and subject to the foregoing and save as disclosed in this circular, there is no indication that Dundex Medical and Caretalk have breached on the laws and regulations in Hong Kong and no indication that the Target Company and Zhilang Jinggong have breached on the laws and regulations in the PRC in the Relevant Periods.

The Equity Transfer

As soon as possible after the Adjusted Audited Account have been approved by the Purchaser and not later than the CP Fulfillment Date, the Vendors shall confirm with the Purchaser the amount of the Target Value and the consideration for the Equity Transfer.

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The Vendors shall, after the Adjusted Audited Accounts have been approved by the Purchaser and not later than the CP Fulfillment Date:

- (1) enter into the Equity Transfer Agreement with the Purchaser;
- (2) enter into the Joint Venture Agreement with the Purchaser; and
- (3) procure the Target Company to adopt its articles of association which shall take effect from the Completion Date and in substance substantially the same as the Joint Venture Agreement, and in such form and substance as may be agreed between the Purchaser and the Vendors.

Upon completion of the Equity Transfer, equity interest in the Target Company will be owned as to 55% by the Purchaser and as to 45% by the Vendors in aggregate, and the Target Company will become a 55% indirectly owned subsidiary of the Company.

Management of the Target Company

Board composition

After completion of the Equity Transfer, the board of directors of the Target Company will comprise of five directors, of whom three will be appointed by the Purchaser and two will be appointed by the Vendors. The chairman of the board of directors, the legal representative and the chief financial officer of the Target Company will be appointed by the Purchaser.

Financing

Unless the Purchaser and the Vendors otherwise agree in writing,

- (1) the Purchaser and the Vendors shall not contribute to the Target Company the whole (or any part thereof) of such additional funding in the form of registered capital contribution or any other means such that such contribution may result in any change in the Purchaser's (and/or its Affiliates') and the Vendors' shareholding percentage in the Target Company;
- (2) if at any time after the Completion Date, the Target Company requires additional funding, the Purchaser and the Vendors shall consult with each other to reach decisions;
- (3) if any funding involves increase of capital, the Purchaser and the Vendors shall agree to, and procure directors of the Target Company to vote in consent of the Purchaser and the Vendors increasing their respective capital contribution to the Target Company on a pro rata basis or otherwise so as to maintain their respective shareholding percentage in the Target Company.

LETTER FROM THE BOARD

Performance appraisal

The Purchaser and the Vendors have agreed to maintain the Vendors' relative independent operational autonomy of the Target Company during the Target Company's business operations. No material change shall be made to the existing staff management policy, remuneration policy and incentive policy of the Target Company.

Save for non-compliance with the relevant laws and regulations, the rules and regulations of the Target Company or the termination of agreements with relevant staff by the Target Company voluntarily, the existing core management of the Target Company Zhao Zhigang will not be changed for at least four years from the Completion Date, and such arrangement will be implemented by the Target Company by entering into legal and valid non-competition agreements and other valid legal documents.

The Directors of the Company confirms that the "Vendors' relative independent operational autonomy" as stated above refers to the day-to-day operation of the Target Company.

The Purchaser agreed to maintain the Vendors' relative independent operational autonomy of the Target Company during the Target Company's business operation due to the reasons that (1) the Target Group is principally engaged in the business of research and development, manufacturing and sales of medical devices, as well as a high new technology application and biological science, as the Vendors possess the relevant expertise to run the business of the Target Group which is not exactly the same with the Group's existing business segment of distribution of pharmaceutical and healthcare products, the Purchaser would like to continue to borrow the Vendors' expertise after the completion of the Equity Transfer for the benefit of the day-to-day operation of the Target Group; and (2) the Vendors guaranteed to the Purchaser under the Cooperation Agreement that the Target Group shall reach the Guaranteed Profits, failing which, the Vendors shall be subject to reimbursement obligations, the details can be referred to in paragraph headed "Post-completion undertakings — Profits guaranteed by the Vendors" in this circular. In this regard, the Directors of the Company are of the view that it is fair and reasonable to let the Vendors keep on running the day-to-day operation of the Target Company after the completion of the Equity Transfer.

However, the Purchaser does not intent to give away its ultimate control over the Target Group, and such intention is protected by the terms of the Cooperation Agreement that after the completion of the Equity Transfer, (1) the board of directors of the Target Company will comprise of five directors, of whom three will be appointed by the Purchaser and two will be appointed by the Vendors; and (2) the chairman of the board of directors, the legal representative and the chief financial officer of the Target Company will be appointed by the Purchaser, the details of which are set out in the paragraphed headed "Management of the Target Company — Board composition" above. Through controlling the majority of the board of the Target Company and the key management positions of the Target Company, the Purchaser can secure its interest in the Target Company.

Distribution of profits

The Purchaser and the Vendors have agreed that profits of the Target Company shall be retained in the Target Company save that any Undistributed Profits for the year ending 31 December 2014 shall be distributed to the Purchaser and the Vendors in accordance with their respective shareholding percentage in the Target Company as at the Completion Date.

LETTER FROM THE BOARD

Post-completion undertakings

Restrictions on transfer

The Vendors, the Purchaser and the Target Company have agreed that:

- (1) Within the Lock-up Period, shareholders of the Target Company shall not directly or indirectly transfer or encumber their respective equity interest in the Target Company to any parties (other than transfers to his/her/its Affiliates). After the expiry of the Lock-up Period, if the Purchaser or any of the Vendors proposes to transfer the whole or any part of his/her/its equity interest in the Target Company to any parties (other than transfers to his/her/its Affiliates), he/she/it shall send a prior written notice to the non-transferring shareholder of the Target Company and seek its written consent. If the non-transferring party agrees to the transfer, he/she/it (or his/her/its Affiliates) shall have the pre-emptive right based on the same terms and conditions (including but not limited to the transfer price and the time and method of payment). Where the non-transferring party (or his/her/its Affiliates) is unable to exercise the pre-emptive right under the PRC laws or as a result of any restriction imposed by competent authorities, the non-transferring party has the right to designate another party to acquire such equity interest.
- (2) The Purchaser and the Vendors have the right to transfer the whole or part of their respective equity interest in the Target Company to their respective Affiliates and the Target Company shall agree to such transfer and the Purchaser and the Vendors shall ensure the board of directors of the Target Company agree to such transfer. The Purchaser and the Vendors also agree to waive the pre-emption right he/she/it may have under applicable laws and/or the articles of association of the Target Company in such regard.

Separate listing of the Target Company

The Purchaser and the Vendors have agreed to initiate and conduct the separate listing of the Target Company and its business if the Target Company has reached all of the Guaranteed Profits, and subject to the Target Company meeting the requirements of the relevant stock exchange.

In addition, after the aforesaid proposed separate listing of the Target Group, subject to applicable rules of relevant stock exchange and requirements of relevant laws, regulations and codes and the Purchaser and the Vendors agreeing on the terms of such transfer, the Purchaser may sell part of its equity interest in the Target Company to the Vendors.

Profits guaranteed by the Vendors

Pursuant to the Cooperation Agreement, the Vendors have guaranteed to the Purchaser that the Net Profit will reach no less than the following amounts:

- (1) for the year ending 31 December 2014, the lesser of: (i) 110% of the Adjusted 2013 Net Profit; and (ii) RMB31,000,000;

LETTER FROM THE BOARD

- (2) for the year ending 31 December 2015, the lesser of: (i) 121% of the Adjusted 2013 Net Profit; and (ii) RMB34,000,000;
- (3) for the year ending 31 December 2016, the lesser of: (i) 133.1% of the Adjusted 2013 Net Profit; and (ii) RMB38,000,000; and
- (4) for the year ending 31 December 2017, the lesser of (i) 146.4% of the Adjusted 2013 Net Profit; and (ii) RMB40,000,000.

The figures listed in items (1) to (4) above are together referred to as the “**Guaranteed Profits**”.

The Vendors and the Target Company have irrevocably agreed that:

- (1) If the Target Company fails to reach the respective Guaranteed Profits for the relevant year, the Vendors shall jointly and severally make cash reimbursement to the Target Company within 15 Business Days of the issuance of the audited accounts of the Target Company for the relevant year, the amount being the difference between the actual Net Profit and the Guaranteed Profits for that year. If the actual Net Profit is a negative figure, then for the purposes of reimbursement, the reimbursement payable by the Vendors shall be in the amount of the Guaranteed Profits for the relevant year (the “**Target Co Reimbursed Amount**”).
- (2) If the Vendors fail to pay the Target Co Reimbursed Amount to the Target Company in accordance with (1) above, then the Vendors shall make cash reimbursement to the Purchaser within 18 Business Days from the date of issuance of the audited accounts of the Target Company for the relevant year, in the amount calculated from the following formula (the “**Purchaser Reimbursed Amount**”):

$$\text{Purchaser Reimbursed Amount} = \frac{\text{Target Co Reimbursed Amount}}{\text{Amount}} \times \frac{\text{The Purchaser's equity interest percentage in the Target Company}}{\text{the Target Company}}$$

- (3) if the Vendors fail to pay the Target Co Reimbursed Amount and the Purchaser Reimbursed Amount in accordance with (1) and (2) above, then the Purchaser has discretion to elect to, within 21 Business Days of the date of issuance of the audited accounts of the Target Company for the relevant year, deduct the Purchaser Reimbursed Amount from the Undistributed Profit (if any) attributable to the Vendors based on the proportion of equity interest he/she holds in the Target Company, or in accordance with the request of the Purchaser, settle the Purchaser Reimbursed Amount by transferring equity interest held by the Vendors in the Target Company to the Purchaser or any of the Company's subsidiary(ies) it may designate:

$$\text{Proportion of transferred equity interest (\%)} = \frac{\text{Purchaser Reimbursed Amount}}{\text{Net assets of the Target Company as shown in the audited accounts of the Target Company for the relevant year and in RMB equivalent}} \times 100\%$$

LETTER FROM THE BOARD

After the acquisition, if the Target Company fails to reach the respective Guaranteed Profit for the subsequent years ended 31 December 2014, 2015, 2016 and 2017, and the Target Co Reimbursed Amount, defined under the Cooperation Agreement, is to be paid by the Vendors (who are equity-holders of the Target Company) to the Target Company in accordance with the terms of the Cooperation Agreement, the Target Co Reimbursed Amount will be treated as a contribution by the equity-holders of the Target Company in equity (i.e. as a form of capital reserve) and shall not be accounted for as income in the financial statements of the Target Group. Under HKFRS 3, in the group consolidation level, 55% of the Target Co Reimbursed Amount would be regarded as the contingent negative consideration receivable from the Vendors (“Contingent Consideration Receivable”). At the acquisition date, the fair value of the Contingent Consideration Receivable shall be recognised and after the acquisition date, the fair value of the Contingent Consideration Receivable will be remeasured at each subsequent reporting period end and the change in the fair value of the Contingent Consideration Receivable will be credited/charged to the consolidated income statement of the Enlarged Group in subsequent years (up to 2017).

If the Vendors fail to pay to the Target Co Reimbursed Amount to the Target Company in accordance with the terms of the Cooperation Agreement and the Vendors will then make the payment, which is calculated by $55\% \times \text{Target Co Reimbursed Amount}$, to the Purchaser (“Purchaser Reimbursed Amount”). Under HKFRS 3, this would be regarded as Contingent Consideration Receivable from the Vendors. At the acquisition date, the fair value for this Contingent Consideration Receivable shall be recognised and after the acquisition date, the fair value of the Contingent Consideration Receivable will be remeasured at each subsequent reporting period end and any change in the fair value of this Contingent Consideration Receivable shall be credited/charged to the consolidated income statement of the Enlarged Group in the subsequent years (up to 2017). There will have no effect on the financial statements of the Target Group.

If the Vendors fail to pay the Target Co Reimbursed Amount and the Purchaser Reimbursed Amount in accordance with the Cooperation Agreement, as stated in (a) and (b) above, the Purchaser has discretion to elect to either (1) deduct the Purchaser Reimbursed Amount from the Undistributed Profit of the Target Company or (2) to settle the Purchaser Reimbursed Amount by transferring the proportion of the equity interest of the Target Company held by the Vendors, as stipulated in the Cooperation Agreement. Either form of settlement for the compensation will be regarded as the Contingent Consideration Receivable from the Vendors. At the acquisition date, the fair value for this Contingent Consideration Receivable shall be recognised and after the acquisition date, the fair value of the Contingent Consideration Receivable will be remeasured at each subsequent reporting end and any change in the fair value of this Contingent Consideration Receivable shall be credited/charged to the consolidated income statement of the Enlarged Group in the subsequent years (up to 2017). There will have no particular effects on the financial statements of the Target Group, except that the distribution of profits to the Vendors (45% of the distribution) would ultimately be used as cash settlement for the Contingent Consideration Receivable from the Vendors to the Purchaser, or merely a transfer of the proportionate shareholding in the Target Company from the Vendors to the Purchaser.

Having considered the accounting treatment as disclosed above, the accounting treatment of the Target Co Reimbursed Amount (if any) will have no impact to the consolidated statement of profit or loss of the Target Group. As such, the Target Co Reimbursed Amount will not be included in the calculation of the Guaranteed Profits in subsequent years.

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On the following basis, the Directors consider that the compensation available to the Purchaser as described in (1) to (3) above is fair and reasonable and in the interests of the Group and the Shareholders as a whole:

- (i) it provides compensation to the Purchaser in the event that the Guaranteed Profits cannot be met;
- (ii) it provides an alternative compensation to the Purchaser in the event that the Vendors fail to pay the Target Co Reimbursed Amount and the Purchaser Reimbursed Amount in cash;
- (iii) the Purchaser Reimbursed Amount is determined based on Target Co Reimbursed Amount, which in turn is determined in accordance with the actual shortfall of the Guaranteed Profits on a dollar-for-dollar basis; and
- (iv) the Purchaser Reimbursed Amount is also determined based on the percentage of the Purchaser's equity interest in the Target Company.

Based on the review of the Target Company's management account as of October 2014, the Directors are of the view that the profit guarantee for the year ending 31 December 2014 is achievable.

The Company will publish an announcement in respect of the fulfillment or non-fulfillment of the Guaranteed Profits for each of the financial years ending 31 December 2014, 2015, 2016 and 2017.

The Company will also comply with the relevant Listing Rules requirements in the event of the transfer of equity interest in the Target Company pursuant to the terms above.

The Directors confirm that the business scope of the Target Group will be consistent as before completion during the periods of the Guaranteed Profits. To achieve this end, the Purchaser and the Vendors agreed under the Cooperation Agreement that the existing core management of the Target Company Zhao Zhigang will not be changed for at least four years from the Completion Date and the Vendors have guaranteed to the Purchaser to achieve the Guaranteed Profits.

Non-disposal Undertakings

The Target Company has agreed that, save for the Transactions, it shall not dispose of all or part of its direct or indirect equity interest in any member of the Target Group through transfer, pledge, creation of security interest or other encumbrance, or any other means at any time from the date of the Cooperation Agreement until the date on which all obligations in connection with the Guaranteed Profits have been fully discharged by the Vendors.

The Vendors have agreed that they shall not dispose of all or part of his/her equity interest in the Target Company through transfer, pledge, creation of security interest or other encumbrance, or any other means at any time from the date of the Cooperation Agreement until the date on which all obligations in connection with the Guaranteed Profits have been fully discharged by the Vendors.

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Non-Competition Undertaking

The Vendors have undertaken that, from the date of the Cooperation Agreement and until the Completion Date, he/she will not directly or indirectly engage in, or assist any other party to engage in, any business that may be identical or similar to that of the Company and its subsidiaries or that of the Target Company and its subsidiaries.

The Purchaser has also undertaken that, from the date of the Cooperation Agreement and until the Completion Date, it will not directly or indirectly engage in, or assist any other party to engage in, any business that may be identical or similar to that of the Target Company and its subsidiaries.

Each of the Vendors has undertaken that he/she will not and will procure his/her respective connected persons not to participate or commence any Restricted Business and/or connected transaction(s), or to have any interest in the Restricted Business, whether directly or indirectly, by himself/herself or with any other person and/or any parties in any way after the Completion Date.

Termination

At any time before the Completion Date, the Cooperation Agreement may be terminated by:

- (1) the Purchaser, if any of the following circumstances occurs prior to the Completion Date:
 - (i) the Vendors or the Target Company fail to comply in a timely manner with their warranties and/or the covenants, undertakings or agreements under the Cooperation Agreement;
 - (ii) the transfer of equity interest by the Vendors or the Target Company for the benefit of its/his/her creditors, or any legal proceedings initiated by or against the Vendors and/or the Target Company in relation to the laws of bankruptcy or insolvency, adjudication or possible adjudication of the Vendors and/or the Target Company as bankrupt or insolvent, or seeking to rearrange, adjust, protect, relieve and combine the debts of the Vendors and/or the Target Company;
 - (iii) the Conditions Precedent are not fully satisfied (or waived in accordance with the terms of the Cooperation Agreement) by the CP Fulfillment Date;
 - (iv) the completion of the Equity Transfer does not take place by the Long Stop Date; or
 - (v) the Vendors or any member of the Target Group fails to fully resolve problems discovered by the Purchaser in due diligence investigation within 15 days after the Purchaser so requests in writing; or
- (2) written agreement of the parties to the Cooperation Agreement.

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If the Cooperation Agreement is terminated in accordance with (1) above, the Cooperation Agreement shall immediately cease to have validity, provided that such termination shall not affect the rights of each party against any other party in connection with any breach that has arisen before termination.

INFORMATION ON THE COUNTERPARTIES

Zhao Zhigang is the chairman of and the holder of 70% equity interest in the Target Company as at the Latest Practicable Date. There is an amount of RMB1,969,000 due from Mr. Zhao as at 30 June 2014. The amount will be repaid by Mr. Zhao to the Target Company prior to the completion of the acquisition of the Target Group.

Zhao Wen is the holder of 30% equity interest in the Target Company as at the Latest Practicable Date.

INFORMATION ON THE TARGET GROUP

Information on the Target Group

As at the Latest Practicable Date, members of the Target Group are:

- (1) the Target Company;
- (2) Zhilang Jinggong;
- (3) Dundex Medical; and
- (4) Caretalk.

The Target Group is principally engaged in the business of research and development, manufacturing and sales of medical devices, as well as a high new technology application and biological science. The products of the Target Group include physical rehabilitation physiotherapy instruments and general diagnosis instruments, including but not limited to electrical stimulation therapeutic apparatus, ultrasonic therapeutic apparatus, magnetism therapeutic apparatus, professional physical panel therapeutic apparatus and phonetic thermometer, etc.. The Target Group's major customers are principally engaged in the distribution and/or wholeselling of medical devices and new technology application in North America and Europe. All the customers are Independent Third Parties of the Target Group and the Company.

Caretalk principally engages in the overseas sales and distribution of products manufactured by the Target Company.

Dundex Medical has not carried out any investing activities, financing activities and/or any other activities since its date of incorporation.

LETTER FROM THE BOARD

Financial information on the Target Group

Based on our auditor's opinion, the financial information, together with the notes thereon for the purpose of the Accountants' Report on the Target Group, the Directors believe that the financial information of the Target Group gives a true and fair view of the state of affairs of the Target Group as at 31 December 2011, 2012, 2013 and 30 June 2014 and of its results and cash flows for the Relevant Periods.

For the two financial years ended 31 December 2012 and 2013 respectively, the net profit before and after taxation of the Target Company prepared based on the PRC GAAP were as follows:

	For the year ended 31 December 2012	For the year ended 31 December 2013
	<i>RMB</i>	<i>RMB</i>
	<i>(audited)</i>	<i>(audited)</i>
Profit before taxation	11,345,000	29,814,000
Profit after taxation	9,735,000	25,506,000

The audited net assets of the Target Company prepared based on the PRC GAAP as at 31 December 2013 was RMB51,135,000.

For the period from 17 October 2012 (date of incorporation of Zhilang Jinggong) to 31 December 2012 and the financial year ended 31 December 2013 respectively, the net profit/(loss) before and after taxation of Zhilang Jinggong prepared based on the PRC GAAP were as follows:

	For the period from 17 October 2012 to 31 December 2012	For the year ended 31 December 2013
	<i>RMB</i>	<i>RMB</i>
	<i>(audited)</i>	<i>(audited)</i>
Profit/(loss) before taxation	(2,000)	374,000
Profit/(loss) after taxation	(2,000)	281,000

The audited net assets of Zhilang Jinggong prepared based on the PRC GAAP as at 31 December 2013 was RMB2,650,000.

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For the period from 1 June 2012 (date of incorporation of Dundex Medical) to 31 December 2013, subject to a qualified opinion of the reporting accountant in relation to the non-preparation of a complete set of financial statements annually, the net loss before and after taxation of Dundex Medical prepared based on the SME-FRS were as follows:

**For the period from 1 June 2012
to 31 December 2013**

*HKD
(audited)*

(Loss) before taxation	(33,000)
(Loss) after taxation	(33,000)

The audited net assets of Dundex Medical prepared based on the SME-FRS as at 31 December 2013 was HKD742,000.

The establishment of Dundex Medical, as a strategic investment of the Target Group, is mainly for the purpose of expanding the PRC and overseas markets and establishing brand marketing channels, mainly by means of establishing Dundex Medical's brand and trademark. In accordance with the Target Group's strategic planning, Dundex Medical has not commenced any market expansion activities.

Dundex Medical was established on 1 June 2012 and no books and records have been kept as it has not carried out any operating activities since its date of incorporation. During the annual audit for 2013, its auditor, SBC CPA Limited who issued a qualified opinion dated 26 February 2014 because there was no complete set of financial statements prepared by its directors in accordance with the Small and Medium-sized Entity Financial Reporting Standard issued by the Hong Kong Institute of Certified Public Accountants and section 141D of the predecessor Hong Kong Companies Ordinance. The Directors are aware that the auditors of Dundex Medical have reported under the auditor's report on Dundex Medical in accordance with section 141(4), 141(6) and 141D of the predecessor Companies Ordinance (Cap. 32 of the Laws of Hong Kong)(the "Predecessor Companies Ordinance") that they have not obtained all the information and explanations that they consider necessary for the purposes of their audit and they were unable to determine whether proper books of account had been kept.

The Directors are aware that under the Predecessor Companies Ordinance, if any person being a director of a company fails to take all reasonable steps to secure compliance with sections 141D(1)(c) and 141D(1)(d), the statutory consequence is that such person will, in respect of each offence be liable to a maximum of six months' imprisonment and HK\$50,000 fine. Sections 141D(1)(c) and 141D(1)(d) provide that:

- (1) section 141D(1)(c): there must be attached to the balance sheet a report by the directors with respect to the state of the company's affairs, the amount, if any, which they recommend should be paid by way of dividend and the amount of, if any, which they propose to carry to the reserve fund, general reserve or reserve account shown specifically on the balance sheet or to a reserve fund, general reserve or reserve account to be shown specifically on the subsequent balance sheet;

LETTER FROM THE BOARD

- (2) section 141D(1)(d): the directors' report so attached must be approved by the board of directors and signed on behalf of the board by the chairman of the meeting at which it is approved or by the secretary of the company.

Having taken into consideration that:

- (1) Dundex Medical has not commenced business, and
- (2) pursuant to the Cooperation Agreement, each of Zhao Zhigang and Zhao Wen has agreed to keep the Purchaser and/or any member of the Target Group indemnified against all loss and damage the Purchaser and/or any member of the Target Group may suffer arising from any problems, defects and/or deficiencies subsisting prior to and including the Completion Date in relation to any member of the Target Group or their assets or business,

the Directors consider that the risks associated with non-compliance with section 141D shall have no adverse impact against the Enlarged Group.

For the two financial years ended 31 December 2012 and 2013 respectively, the net profit before and after taxation of Caretalk prepared based on the PRC GAAP were as follows:

	For the year ended 31 December 2012	For the year ended 31 December 2013
	<i>RMB</i>	<i>RMB</i>
	<i>(unaudited)</i>	<i>(unaudited)</i>
Profit before taxation	12,610,000	1,377,000
Profit after taxation	9,136,000	599,000

The unaudited net assets of Caretalk prepared based on the PRC GAAP as at 31 December 2013 was RMB28,438,000.

FINANCIAL EFFECTS OF THE TRANSACTIONS ON THE GROUP

As disclosed above, the total consideration payable by the Purchaser for the Equity Transfer will be funded by internal financial resources of the Group and banking facilities.

Following completion of the Equity Transfer, the Target Company will become an indirect 55%-owned subsidiary of the Company and its financial results will be consolidated into the financial statements of the Group.

Based on the unaudited pro forma financial information of the Enlarged Group as set out in Appendix IV to this circular, upon completion of the Equity Transfer, the consolidated total assets of the Enlarged Group would increase from approximately RMB811,541,000 to approximately RMB1,122,438,000 and the consolidated total liabilities of the Enlarged Group would increase from approximately RMB352,409,000 to approximately RMB570,076,000. The non-controlling interests of the Enlarged Group would be increased by approximately RMB93,942,000.

LETTER FROM THE BOARD

The total estimated acquisition-related costs for the acquisition of the Target Group of approximately RMB2,473,000 which is to be incurred and to be charged to consolidated profit or loss upon the completion of the acquisition of the Target Group. Based on the Accountant's Report, the Target Group has recorded healthy growth in sales and profits since 2011, and having inquired with the Target Group's management, the Directors have not become aware of any adverse changes in business development for the Target Group. Thus, the Directors believe that the earnings of the Group will be increased after the transaction.

Based on the unaudited pro forma financial information of the Enlarged Group, the Transactions would give rise to goodwill of RMB74,550,000 which is measured at cost at initial recognition and would be subsequently tested for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired.

The Group's accounting policies for goodwill is in accordance with the applicable accounting standards. Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred and the amount recognised for non-controlling interests over the identifiable net assets acquired and liabilities assumed. After initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired.

Even though the impairment assessment will be carried out in the accounting periods in the future, in view of the date of this circular, the Directors consider that the amount of goodwill as a result of the difference between the consideration and the fair value of the assets and liabilities of the Target Group is a reflection of the expected future economic benefits, i.e. the net cash flows and earnings of the Target Group.

For the purpose of the unaudited pro forma financial information, the Board has considered the goodwill associated with the Transactions in accordance with HKAS 36 "Impairment of Assets". Based on the information available to the Directors as at the Latest Practicable Date, the Board considered that there is no indication of impairment loss on goodwill arising from the Transactions in accordance with the accounting policy of the Group.

Upon completion of the Equity Transfer, the actual goodwill and intangible assets, if any, of the Enlarged Group, for accounting purposes, will need to be recalculated based on the fair value of the net identifiable assets and liabilities of the Target Group at the Completion Date. The actual financial effects are expected to be different from the amounts presented above.

The unaudited pro forma financial information has been prepared for illustrative purpose only, based on the judgements and assumptions of the Directors, and, because of its hypothetical nature, it may not reflect the true financial position of the Enlarged Group as at Completion Date or any future date. Moreover, since the actual fair values of the assets, liabilities and contingent liabilities of the Target Group as at Completion Date would be different from their estimated fair values used in the preparation of the unaudited pro forma financial information, the actual financial effects of the Transactions might be materially different from the financial information as shown in Appendix IV to this circular.

LETTER FROM THE BOARD

REASONS FOR AND BENEFITS OF ENTERING INTO THE COOPERATION AGREEMENT

The Group is principally engaged in the distribution of pharmaceutical and healthcare products in the PRC.

To seek for more business opportunities and to maximise return to the Group and the Shareholders in the long run, the Directors are of the view that the entering into of the Cooperation Agreement and the transactions contemplated thereunder can create a good opportunity for the Group to expand its business into the markets of manufacturing and sales of medical devices, to enhance the Group's revenue source, and to create a synergy effect with the existing business of the Group. More specifically, the Board considers that:

1. The rapid development of wearable and portable and mobile medical devices will lead a significant change in the medical sector in future. The flagship product of the Target Company, "hand-held medical instrument" will benefit from this medical development trend.
2. The Target Company has an overseas sales network, upon completion of the Equity Transfer, the Group will expand into the global medical and health electronic product markets to enlarge the health segment.
3. Diversification of products and modes of profits will be realized from the Equity Transfer to build up a full industrial chain structure of research and development — manufacturing — channels — end terminal under one roof.
4. It is expected the Equity Transfer will help broaden the source of revenue and scale of sales of the Group and create drivers for future profit growth.
5. The Group has strong primary and secondary distribution networks in the PRC with over 70,000 pharmacies across the nation as well as 2,500 product specialty counters. After completion of the Equity Transfer, the Group will be responsible for selling the products of the Target Company in the PRC and the Target Company's products will be distributed through the Group's networks and create further room for growth in the domestic market. It is expected that the parties can generate a significant synergy. The main products of the Target Company are wearable and portable electronic medical devices, which are suitable for household daily use, whereas the current products of the Group are medicines for oral administration and external use. Entering into the Cooperation Agreement will result in enriching and complementing the product line of the Group. The Target Company currently has an overseas sales network as the PRC market is yet developed. It is expected that the

LETTER FROM THE BOARD

Target Company will grow in the PRC market through the Group's powerful sales networks, which creates a significant synergy effect with the business of the Target Company. The main products of the Target Company and the relevant sales of such products are set out below:

	Sales amount	Sales amount	Sales amount	Sales amount
Type of product	2011 (RMB)	2012 (RMB)	2013 (RMB)	January - June 2014 (RMB)
Hand-held electrical stimulator	63,287,884	67,594,598	88,822,055	41,695,421
Infra-red human body thermometer	45,141,478	46,079,757	48,508,454	27,290,211
Medical electrical physical rehabilitation physiotherapy instruments	1,557,159	3,226,896	5,846,768	3,184,804
Household rehabilitation equipment	—	6,292	267,632	318,869
Auxiliary devices and components	<u>6,627,479</u>	<u>6,821,457</u>	<u>4,655,090</u>	<u>2,046,695</u>
Total sales amount	<u>116,614,000</u>	<u>123,729,000</u>	<u>148,100,000</u>	<u>74,536,000</u>

The Directors consider that the terms of the Cooperation Agreement (including the consideration for the Equity Transfer) and the Transactions are fair and reasonable and in the interests of the Group and the Shareholders as a whole.

LISTING RULES IMPLICATIONS

As one or more of the applicable percentage ratios as defined in the Listing Rules in respect of the Equity Transfer exceed 25% but less than 100%, the Equity Transfer constitutes a major transaction of the Company under Chapter 14 of the Listing Rules and is therefore subject to the reporting, announcement and Shareholders' approval requirements under the Listing Rules.

THE EXTRAORDINARY GENERAL MEETING

A notice convening the Extraordinary General Meeting to be held at the Conference Room, Units 1906-1907, 19th Floor, Shui On Centre, 6-8 Harbour Road, Wanchai, Hong Kong, at 11:00 a.m. on Friday, 23 January 2015 is set out on pages 124 to 125 of this circular. At the Extraordinary General Meeting, ordinary resolutions will be proposed to the Shareholders to consider and, if thought fit, to approve, inter alia, the Cooperation Agreement and the transactions contemplated thereunder.

As at the Latest Practicable Date, to the best of the Directors' knowledge, information and belief, having made all reasonable enquiries, no Shareholder has any material interest in the Cooperation Agreement and the transactions contemplated thereunder and therefore no Shareholder or its/his/her associate is required to abstain from voting at the Extraordinary General Meeting.

LETTER FROM THE BOARD

A form of proxy for use at the Extraordinary General Meeting is enclosed with this circular. Whether or not you intend to attend the Extraordinary General Meeting, you are requested to complete the enclosed form of proxy in accordance with the instructions printed thereon and return the same to the Company's branch share registrar in Hong Kong, Tricor Investor Services Limited at Level 22, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong as soon as practicable and in any event not later than 48 hours before the time appointed for holding the Extraordinary General Meeting or any adjournment thereof (as the case may be). Completion and return of the form of proxy will not preclude you from attending and voting in person at the Extraordinary General Meeting or any adjourned meeting (as the case may be) should you so wish.

RECOMMENDATION

The Directors (including the independent non-executive Directors) consider that the Cooperation Agreement and the transactions contemplated thereunder are fair and reasonable and in the interests of the Company and the Shareholders as a whole. Accordingly, the Board recommends the Shareholders to vote in favour of the ordinary resolutions to approve the Cooperation Agreement and the transactions contemplated thereunder at the Extraordinary General Meeting.

The Cooperation Agreement and the transactions contemplated thereunder are subject to the fulfillment of a number of Conditions Precedent. As such, the Cooperation Agreement and the transactions contemplated thereunder may or may not proceed. Shareholders and potential investors of the Company are advised to exercise caution when dealing in the Shares.

ADDITIONAL INFORMATION

Your attention is drawn to additional information set out in the appendices to this circular.

Yours faithfully,
For and on behalf of the Board
Kingworld Medicines Group Limited
Zhao Li Sheng
Chairman

1. FINANCIAL INFORMATION OF THE GROUP

Please refer to the annual reports of the Company for the years ended 31 December 2011 (pages 57 to 124), 2012 (pages 57 to 124) and 2013 (pages 58 to 130) published by the Company on 12 April 2012, 16 April 2013 and 25 April 2014 respectively, which contained information for the three years ended 31 December 2011, 2012 and 2013 with respect to the consolidated profits and losses and consolidated financial position of the Group together with the notes on the consolidated financial statements. The annual reports are available on the Company's website (<http://www.kingworld.cn>) and the Stock Exchange's website (<http://www.hkexnews.hk>).

2. INDEBTEDNESS

As at the close of business on 30 November 2014, being the latest practicable date for the purpose of this statement of indebtedness prior to printing of this circular, the Enlarged Group had total outstanding secured bank loans within 1 year or on demand of approximately RMB245,395,000, which is analysis as follows:

	<i>RMB</i>
On demand	—
Within 1 year	<u>245,395,000</u>
	<u><u>245,395,000</u></u>

As at 30 November 2014, the bank loans were secured by the investment property, bills receivables and pledged bank deposits of the Group.

Save as aforesaid or otherwise disclosed herein and apart from intra-group liabilities, the Enlarged Group did not have any outstanding debt securities issued and outstanding or authorised or otherwise created but unissued, term loans, other borrowings or indebtedness in the nature of borrowing including bank overdrafts, liabilities, under acceptances (other than normal trade bills), acceptance credits, hire purchase commitments, mortgages and charges, material contingent liabilities and guarantees outstanding as at the close of business on 30 November 2014.

3. MATERIAL CHANGES

On 23 February 2014, the Purchaser entered into the MOU with Wu Hu Medicine, Mr. Wang and Ms. Wang, pursuant to which, amongst other things:

- (i) SZ Kingworld, an indirect wholly-owned subsidiary of the Company, proposed to acquire 100% equity interest in Wu Hu Pharmaceuticals from Ms. Wang and the other shareholder(s) of Wu Hu Pharmaceuticals, for a total consideration of RMB50,000,000 (the “Company Acquisition”);

- (ii) the Purchaser and Wu Hu Medicine proposed to establish a joint venture company (the “**Joint Venture Company**”) with a registered capital of RMB 145,000,000, which will be contributed as to RMB79,750,000 by the Purchaser in cash and RMB62,250,000 by Wu Hu Medicine by way of injection of assets;
- (iii) the Joint Venture Company will further acquire certain assets from Wu Hu Medicine for a consideration of RMB20,000,000 (the “**Remaining Assets Acquisition**”); and
- (iv) SZ Kingworld proposed to transfer its 100% equity interest in Wu Hu Pharmaceuticals to the Joint Venture Company, which will then hold 100% direct equity interest in Wu Hu Pharmaceuticals, for a consideration of RMB50,000,000 (the “**Company Transfer**”).

Wu Hu Medicine is a limited company established in the PRC. It is principally engaged in the research and development and the manufacturing of medicines and healthcare products. Wu Hu Pharmaceuticals is a limited company established in the PRC. It is principally engaged in the wholesale business of medicines, healthcare food and medical devices.

If the transactions contemplated under the MOU are materialised and completed, the Joint Venture Company will become a 55% indirectly owned subsidiary of the Company.

The Company intends to fund the aforesaid corporate actions with its internal resources and equity financing and/or debt financing.

No variation to the remuneration payable to and benefits in kind receivable by the directors of the Purchaser will be resulted from the transactions contemplated under the MOU.

Further details of the transactions contemplated under the MOU have been set out in the announcements of the Company dated 23 February 2014 and 28 February 2014 respectively.

The Directors are not aware of any material adverse change in the financial or trading position of the Group since 31 December 2013, the date to which the latest published audited accounts of the Group were made up.

4. WORKING CAPITAL

The Directors are of the opinion that, in the absence of unforeseeable circumstances, after taking into account the Enlarged Group’s business prospects, internal resources and available banking facilities, the Enlarged Group has sufficient working capital for its present requirements for the next twelve months from the date of this circular.

5. FINANCIAL AND TRADING PROSPECT OF THE ENLARGED GROUP

The business of the Enlarged Group will expand further from home care pharmaceuticals, healthcare products and food products to the household portable medical device market. The household portable medical device market for the main products of the Target Company is affected by the following trends: (1) Aging of population. (2) People in developed countries and developing

countries have increasing expectations for enhanced healthcare. (3) Payments and insurance coverage of medical expenses by insurers and employers are reducing gradually, but the fees payable by insured persons and patients have been ever increasing. (4) Early analysis, prevention and therapy for many diseases with minor symptoms are available with advancements in technology. According to media reports, the market size of the global household medical device market has grown from US\$14.6 billion in 2007 to US\$20.4 billion in 2012, with a compound annual growth rate (CAGR) of 6.8%. Auxiliary devices for rehabilitation and therapy, monitor/sensor and telemetry devices, will become the focus points in the household medical electronics market.

On the background of globalization, the development of the household medical device market is not only affected by the above macro factors in the international market, it is also affected by the domestic social medical and retirement insurance systems, birth control policy, the aging trend of a large population base and the macro adjustment policy of the industry.

According to the medical policy promulgated under the “Twelfth Five-Year Plan”, on one hand, it has made clear that medical and health expenditure by the State will continue to increase in the future, reforms of the medical system will be deepened and focus will be on early prevention of diseases. This has brought extensive growth prospects to the overall medical device industry, in particular for domestic medical device enterprises supplying mid- to low-end medical devices. On the other hand, it has also affirmed that the State will provide key support to large domestic medical device enterprises, and preferential policies of the State for the industry, in the aspects of finance, taxation, financing, administrative review and approval, will be provided, to support industry consolidation as well as merger and restructuring of the pharmaceutical industry. This has provided extremely good opportunities for enterprises in the medical device industry to realize rapid development by way of external expansion. Meanwhile, the accelerated aging trend, increasing consumption power and health awareness have created an enormous market space for the medical device industry. The growth prospect of the medical device industry in China, particularly the sub-sector market of the domestic medical device industry, is optimistic. Under the supportive national policies, deepening of medical reforms, emerging trend of an aging population, increasing consumption power and health awareness, the medical device industry of China is entering a prime period of development.

Benefiting from the development trend of the medical device industry, it is anticipated that the Target Company’s major product, household portable medical device, will be able to create good opportunities for the Group to expand into the medical device manufacture and sales market to increase the Group’s income sources.

The source of analysis under this section headed “Financial and Trading Prospect of the Enlarged Group is the report issued by Zero Power Intelligence entitled “2013 - 2018 Report on In-Depth Analysis, Research, Consultation and Forecast of the Market of Domestic Medical Electronic Devices”. The Directors believe that the abovementioned report is a reliable source of information because Zero Power Intelligence is a professional market research and surveys agency with experience and resources in the medical and healthcare industry.

The following is the text of the accountant's report on the Target Group, prepared for the purpose of incorporation in this circular, received from the reporting accountant of the Company, Crowe Horwath (HK) CPA Limited, Certified Public Accountants, Hong Kong.



國富浩華(香港)會計師事務所有限公司
Crowe Horwath (HK) CPA Limited
Member Crowe Horwath International
9/F Leighton Centre,
77 Leighton Road,
Causeway Bay, Hong Kong

31 December 2014

The Board of Directors
Kingworld Medicines Group Limited

Dear Sirs,

We set out below our report on the financial information (the “Financial Information”) of Shenzhen Dong Di Xin Technology Company Limited (深圳市東迪欣科技有限公司) (the “Target Company”) and its subsidiaries (hereinafter collectively referred to as the “Target Group”), for each of the three years ended 31 December 2011, 2012 and 2013 and the period for the six months ended 30 June 2014 (the “Relevant Periods”) for inclusion in the circular issued by Kingworld Medicines Group Limited (the “Company”), a company incorporated in the Caymen Islands with its shares listed on the main board of the Stock Exchange of Hong Kong Limited (the “Stock Exchange”) dated 31 December 2014 (the “Circular”) in connection with the proposed acquisition of 55% equity interest in the Target Company.

The Target Company was incorporated in the People's Republic of China (the “PRC”) on 1 March 2000 with limited liability. Since its incorporation and prior to 4 June 2012, Zhao Zhigang and his daughter, Zhao Wen, held 60% and 30% of equity interests of the Target Company, respectively. After the acquisition of additional 10% of the Target Company on 4 June 2012, Zhao Zhigang and his daughter have held 70% and 30% of the equity interests of the Target Company, respectively, up to the date of this report. The Target Company is engaged in the research and development, and manufacturing of electrotherapeutic and physiotherapeutic devices and general medical examination devices in the PRC. The manufactured products are mainly sold outside the PRC to the United States, Russia and the various countries in Europe including the United Kingdom, Italy, Germany, Norway, etc..

In preparation for a group reorganisation based on the Cooperation Agreement dated 8 May 2014, Dundex Medical (H.K.) Limited, a wholly-owned subsidiary of the Target Company shall acquire the entire interest in Caretalk Technology Co., Ltd. (“Caretalk”) from Zhao Zhigang, the holder of 70% of the equity interests in the Target Company (the “Reorganisation”). Caretalk has been under the common control by Zhao Zhigang since its incorporation date of 1 April 2010.

After the completion of the Reorganisation, the Target Company shall become the holding company of the subsidiaries now comprising the Target Group.

APPENDIX II**ACCOUNTANTS' REPORT ON THE TARGET GROUP**

The Target Company has interests in the following subsidiaries during the Relevant Periods and as at the date of this report:

Name of subsidiary	Place of incorporation and operations/ date of incorporation	Equity interest attributable to the Target Group				Issued and fully paid share/ registered capital	Principal activities
		As at 31 December 2011	2012	2013	As at 30 June 2014		
Dundex Medical (H.K.) Limited ("Dundex Medical") (<i>note 1</i>)	Hong Kong 1 June 2012	N/A	100%	100%	100%	USD100,000	Inactive
Shenzhen Zhilang Jinggong Technology Company Limited (深圳市志朗精工科技有限公司) ("Zhilang Jinggong") (<i>notes 2 and 3</i>)	The PRC 17 October 2012	N/A	38%	38%	51%	RMB3,000,000	Manufacturing and sales of plastic injection components for electrotherapeutic and physiotherapeutic devices and general medical examination devices.
Caretalk Technology Co., Ltd. ("Caretalk") (<i>note 4</i>)	British Virgin Islands ("BVI") 1 April 2010	100%	100%	100%	100%	USD50,000	Sales and distribution of electrotherapeutic and physiotherapeutic devices and general medical examination devices manufacturing by the Target Company

Notes:

1. Dundex Medical is a direct wholly-owned subsidiary of the Target Company and, during the Relevant Periods, has no business activities until it takes up the entire interest of Caretalk from Zhao Zhigang under the Reorganisation.
2. Upon the incorporation of Zhilang Jinggong, as stipulated in its Memorandum and Articles of Association, each of its shareholders, other than the Target Company, has to be an employee of the Target Company. Accordingly, despite the fact that the Target Company held 38% of the equity interest of Zhilang Jinggong during the two years ended 31 December 2012 and 31 December 2013, Zhilang Jinggong has been regarded as a subsidiary of the Target Company because, in the opinion of the Target Company, the Target Company has been able to command effective control over Zhilang Jinggong.
3. The English name of the above PRC incorporated entity is for identification purpose only.
4. Pursuant to the Reorganisation as described above, Caretalk shall become a wholly-owned subsidiary of Dundex Medical, a wholly-owned subsidiary of the Target Company. Caretalk has been, since its incorporation, under common control by Zhao Zhigang, the holder of 70% of the equity interest in the Target Company. For the purpose of this report, Caretalk has been regarded and consolidated as an indirect wholly-owned subsidiary of the Target Company since its incorporation date and during the Relevant Periods, on the basis as set out in notes 2(b) and 2(d)(ii) to the Financial Information.

The statutory financial statements of the Target Company which were prepared in accordance with the relevant accounting principles and financial regulations applicable to the enterprises established in the PRC for each of the three years ended 31 December 2011, 2012 and 2013 were

audited by Shenzhen Peng Cheng Certified Public Accountants Co., Ltd. (深圳市鵬城會計師事務所有限公司), Shenzhen Huang Jia Certified Public Accountants (深圳皇嘉會計師事務所) and Shenzhen Xing Ye Certified Public Accountants (深圳興業會計師事務所), respectively, which were registered in the PRC.

The statutory financial statements of Zhilang Jinggong which were prepared in accordance with the relevant accounting principles and financial regulations applicable to the enterprises established in the PRC for the period from 17 October 2012 (date of incorporation) to 31 December 2012 and for the year ended 31 December 2013 were audited by Shenzhen Huang Jia Certified Public Accountants (深圳皇嘉會計師事務所) and Shenzhen Xing Ye Certified Public Accountants (深圳興業會計師事務所), respectively, which were registered in the PRC.

The statutory financial statements of Dundex Medical for the period from 1 June 2012 (date of incorporation) to 31 December 2013 were audited by its auditor, SBC CPA Limited who issued a qualified opinion dated 26 February 2014 because there was no complete set of financial statements prepared by its directors in accordance with the Small and Medium-sized Entity Financial Reporting Standard (the "SME-FRS") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") and section 141D of the predecessor Hong Kong Companies Ordinance and its auditor had not been provided with sufficient books and records for their audit on the SME-FRS financial statements of Dundex Medical. As disclosed above, Dundex Medical had not yet commenced its business since its incorporation on 1 June 2012 and during the Relevant Periods. For the purpose of this report, the directors of Dundex Medical have prepared a complete set of the financial statements for the Relevant Periods in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the HKICPA. We have conducted an independent audit on the HKFRSs financial statements of Dundex Medical in accordance with Hong Kong Standards on Auditing issued by the HKICPA and carried out such procedures as we considered necessary for inclusion of the financial information relating to Dundex Medical. No material adjustment was made on the HKFRSs financial statements of Dundex Medical for the Relevant Periods.

No audited financial statements have been prepared for Caretalk since its date of incorporation as it was incorporated in the BVI where there is no statutory audit requirement. We have, however, reviewed all the relevant transactions of Caretalk for the Relevant Periods and up to the date of this report and carried out such procedures as we considered necessary for inclusion of the financial information relating to Caretalk.

For the purpose of this report, the directors of the Target Company have prepared the consolidated financial statements of the Target Group for the Relevant Periods in accordance with HKFRSs issued by the HKICPA (the "Underlying Financial Statements"). We have carried out an independent audit on the Underlying Financial Statements in accordance with Hong Kong Standards on Auditing issued by the HKICPA. We have examined the Underlying Financial Statements and have carried out such procedures as we consider necessary in accordance with the Auditing Guideline 3.340 "Prospectuses and the Reporting Accountant" as recommended by the HKICPA.

The Financial Information of the Target Group set out in this report has been prepared from the Underlying Financial Statements on the basis set out in note 2 to the Financial Information. No adjustments were considered necessary to the Underlying Financial Statements in preparing our report for inclusion in the Circular.

The Underlying Financial Statements are the responsibility of the directors of the Target Company, who approve the issue. The directors of the Company are responsible for the contents of the Circular in which this report is included. It is our responsibility to compile the Financial Information set out in this report from the Underlying Financial Statements to form an opinion on the Financial Information and to report our opinion to you.

In our opinion, the Financial Information, together with the notes thereon for the purpose of this report, gives a true and fair view of the state of affairs of the Target Group as at 31 December 2011, 2012, 2013 and 30 June 2014 and of its results and cash flows for the Relevant Periods.

The comparative statement of profit or loss, statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flow of the Target Group for the period for the six months ended 30 June 2013 together with the notes thereon have been extracted from the Target Group's unaudited financial information for the same period (the "30 June 2013 Financial Information") which were prepared by the directors of the Target Company solely for the purpose of this report. We conducted our review in accordance with the Hong Kong Standard on Review Engagements 2400 "Engagements to Review Historical Financial Statements" issued by the HKICPA. A review consists of making inquiries, primarily of persons responsible for financial and accounting matters, applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion on the 30 June 2013 Financial Information. Based on our review, nothing has come to our attention that causes us to believe that the 30 June 2013 Financial Information is not prepared, in all material respects, in accordance with the accounting policies consistent with those used in the preparation of the Financial Information, which conform with HKFRSs.

A. FINANCIAL INFORMATION

Consolidated statement of profit or loss

		Year ended 31 December			Six months ended 30 June	
	Note	2011	2012	2013	2013	2014
		RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
					(unaudited)	
Turnover	3	116,614	123,729	148,100	65,745	74,536
Cost of sales		(66,716)	(72,334)	(89,425)	(41,676)	(41,921)
Gross profit		49,898	51,395	58,675	24,069	32,615
Other revenue	4	1,135	2,296	1,458	523	666
Other net (loss)/gain	4	(653)	(641)	(1,863)	(997)	79
Selling and distribution expenses		(10,504)	(12,625)	(11,915)	(5,951)	(4,611)
Administrative expenses		(14,262)	(16,454)	(14,691)	(8,030)	(9,778)
Profit from operations		25,614	23,971	31,664	9,614	18,971
Finance costs		—	—	—	—	—
Profit before taxation	5	25,614	23,971	31,664	9,614	18,971
Income tax	6	(5,321)	(5,083)	(5,179)	(2,541)	(3,508)
Profit for the year/period		<u>20,293</u>	<u>18,888</u>	<u>26,485</u>	<u>7,073</u>	<u>15,463</u>
Attributable to:						
Owners of the Target Company		20,293	18,889	26,311	6,818	15,293
Non-controlling interests		—	(1)	174	255	170
		<u>20,293</u>	<u>18,888</u>	<u>26,485</u>	<u>7,073</u>	<u>15,463</u>

Consolidated statements of profit or loss and other comprehensive income

	Year ended 31 December			Six months ended 30 June	
	2011	2012	2013	2013	2014
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				<i>(unaudited)</i>	
Profit for the year/period	<u>20,293</u>	<u>18,888</u>	<u>26,485</u>	<u>7,073</u>	<u>15,463</u>
Other comprehensive (loss)/income for the year (after tax and reclassification adjustment)					
Items that may be reclassified subsequently to profit or loss:					
Exchange differences on translation of financial statements of a subsidiary in Hong Kong	<u>—</u>	<u>(6)</u>	<u>(18)</u>	<u>(10)</u>	<u>11</u>
Total comprehensive income for the year/period	<u><u>20,293</u></u>	<u><u>18,882</u></u>	<u><u>26,467</u></u>	<u><u>7,063</u></u>	<u><u>15,474</u></u>

Consolidated statements of financial position

		As at 31 December			As at
	Note	2011	2012	2013	30 June
		RMB'000	RMB'000	RMB'000	RMB'000
Non-current assets					
Intangible assets	12	284	660	674	621
Property, plant and equipment	13	3,104	5,636	6,385	6,993
Investment properties	14	—	—	—	3,560
Deferred tax assets	19(c)	—	34	34	117
		<u>3,388</u>	<u>6,330</u>	<u>7,093</u>	<u>11,291</u>
Current assets					
Inventories	15	11,961	11,370	12,422	10,354
Trade and other receivables	16	17,396	30,385	45,543	52,482
Cash and cash equivalents	17	<u>43,840</u>	<u>46,814</u>	<u>64,559</u>	<u>60,397</u>
		<u>73,197</u>	<u>88,569</u>	<u>122,524</u>	<u>123,233</u>
Current liabilities					
Trade and other payables	18	27,276	27,790	37,026	28,010
Income tax payable	19(a)	<u>4,089</u>	<u>7,164</u>	<u>11,179</u>	<u>10,670</u>
		<u>31,365</u>	<u>34,954</u>	<u>48,205</u>	<u>38,680</u>
Net current assets		<u>41,832</u>	<u>53,615</u>	<u>74,319</u>	<u>84,553</u>
NET ASSETS		<u>45,220</u>	<u>59,945</u>	<u>81,412</u>	<u>95,844</u>
EQUITY					
Equity attributable to owners of the Target Company	20				
Paid-up capital		2,000	2,000	2,000	2,000
Reserves		<u>43,220</u>	<u>56,476</u>	<u>77,769</u>	<u>92,083</u>
		45,220	58,476	79,769	94,083
Non-controlling interests		<u>—</u>	<u>1,469</u>	<u>1,643</u>	<u>1,761</u>
TOTAL EQUITY		<u>45,220</u>	<u>59,945</u>	<u>81,412</u>	<u>95,844</u>

APPENDIX II**ACCOUNTANTS' REPORT ON THE TARGET GROUP****Statements of financial position of the Target Company**

		As at 31 December			As at
	<i>Note</i>	2011	2012	2013	30 June
		<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Non-current assets					
Investment in a subsidiary	21	—	1,534	1,534	4,207
Intangible assets	12	284	660	674	621
Property, plant and equipment	13	3,104	4,829	4,541	5,301
Investment properties	14	—	—	—	3,560
Deferred tax assets	19(c)	—	34	34	117
		<u>3,388</u>	<u>7,057</u>	<u>6,783</u>	<u>13,806</u>
Current assets					
Inventories	15	11,961	11,317	11,369	9,617
Trade and other receivables	16	8,730	11,526	26,246	14,688
Cash and cash equivalents	17	<u>23,170</u>	<u>20,998</u>	<u>32,333</u>	<u>49,639</u>
		<u>43,861</u>	<u>43,841</u>	<u>69,948</u>	<u>73,944</u>
Current liabilities					
Trade and other payables	18	20,258	20,195	22,378	22,805
Income tax payable	19(b)	<u>473</u>	<u>75</u>	<u>3,219</u>	<u>1,515</u>
		<u>20,731</u>	<u>20,270</u>	<u>25,597</u>	<u>24,320</u>
Net current assets		<u>23,130</u>	<u>23,571</u>	<u>44,351</u>	<u>49,624</u>
NET ASSETS		<u>26,518</u>	<u>30,628</u>	<u>51,134</u>	<u>63,430</u>
EQUITY ATTRIBUTABLE TO THE OWNERS OF THE TARGET COMPANY	20				
Paid-up capital		2,000	2,000	2,000	2,000
Reserves		<u>24,518</u>	<u>28,628</u>	<u>49,134</u>	<u>61,430</u>
TOTAL EQUITY		<u>26,518</u>	<u>30,628</u>	<u>51,134</u>	<u>63,430</u>

Consolidated statements of changes in equity

	Attributable to owners of the Target Company						Non-controlling interests RMB'000	Total equity RMB'000
	Paid-up capital RMB'000 (Note 20(a))	Statutory reserve RMB'000 (Note 20(b))	Exchange reserve RMB'000 (Note 20(c))	Other reserves RMB'000 (Note 20(d))	Retained profits RMB'000	Total RMB'000		
At 1 January 2011	2,000	1,811	—	339	20,777	24,927	—	24,927
Changes in equity:								
Total comprehensive income for the year	—	—	—	—	20,293	20,293	—	20,293
At 31 December 2011	<u>2,000</u>	<u>1,811</u>	<u>—</u>	<u>339</u>	<u>41,070</u>	<u>45,220</u>	<u>—</u>	<u>45,220</u>
At 1 January 2012	2,000	1,811	—	339	41,070	45,220	—	45,220
Changes in equity:								
Capital contribution by non-controlling interests	—	—	—	—	—	—	1,470	1,470
Total comprehensive income for the year	—	—	(6)	—	18,887	18,881	(1)	18,880
Dividend paid (note 9)	—	—	—	—	(5,625)	(5,625)	—	(5,625)
At 31 December 2012	<u>2,000</u>	<u>1,811</u>	<u>(6)</u>	<u>339</u>	<u>54,332</u>	<u>58,476</u>	<u>1,469</u>	<u>59,945</u>
At 1 January 2013	2,000	1,811	(6)	339	54,332	58,476	1,469	59,945
Changes in equity:								
Total comprehensive income for the year	—	—	(18)	—	26,311	26,293	174	26,467
Appropriation of statutory reserve	—	42	—	—	(42)	—	—	—
Dividend paid (note 9)	—	—	—	—	(5,000)	(5,000)	—	(5,000)
At 31 December 2013	<u>2,000</u>	<u>1,853</u>	<u>(24)</u>	<u>339</u>	<u>75,601</u>	<u>79,769</u>	<u>1,643</u>	<u>81,412</u>
At 1 January 2014	2,000	1,853	(24)	339	75,601	79,769	1,643	81,412
Changes in equity:								
Acquisition of additional interest in a subsidiary	—	—	—	(767)	—	(767)	(493)	(1,260)
Capital contribution by non-controlling interests	—	—	—	—	—	—	441	441
Total comprehensive income for the period	—	—	11	—	15,293	15,304	170	15,474
Appropriation of statutory reserve	—	855	—	—	(855)	—	—	—
Dividend paid (note 9)	—	—	—	—	(223)	(223)	—	(223)
At 30 June 2014	<u>2,000</u>	<u>2,708</u>	<u>(13)</u>	<u>(428)</u>	<u>89,816</u>	<u>94,083</u>	<u>1,761</u>	<u>95,844</u>
Unaudited								
At 1 January 2013	2,000	1,811	(6)	339	54,332	58,476	1,469	59,945
Changes in equity:								
Total comprehensive income for the period	—	—	(10)	—	6,818	6,808	255	7,063
Dividend paid (note 9)	—	—	—	—	(2,000)	(2,000)	—	(2,000)
At 30 June 2013	<u>2,000</u>	<u>1,811</u>	<u>(16)</u>	<u>339</u>	<u>59,150</u>	<u>63,284</u>	<u>1,724</u>	<u>65,008</u>

Consolidated statement of cash flows

	Year ended 31 December			Six months ended 30 June	
	2011	2012	2013	2013	2014
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(unaudited)	
Profit before income tax	25,614	23,971	31,662	9,614	18,971
Operating activities					
Adjustments for:					
Amortisation of intangible assets	97	145	215	104	112
Depreciation of property, plant and equipment	691	936	1,639	801	1,058
Loss on disposal of property, plant and equipment	18	16	24	6	3
Fair value losses on investment properties	—	—	—	—	555
Interest income	(604)	(629)	(632)	(256)	(381)
Impairment loss on trade debtors	—	225	—	—	—
Operating profit before changes in working capital	25,816	24,664	32,908	10,269	20,318
(Increase)/decrease in inventories	(1,691)	591	(1,052)	721	2,068
(Increase)/decrease in trade and other receivables	(5,941)	(13,214)	(15,158)	(7,765)	(6,939)
Increase/(decrease) in trade and other payables	4,777	514	9,236	3,726	(9,016)
Cash generated from operations	22,961	12,555	25,934	6,951	6,431
PRC income tax paid	(1,128)	(2,044)	(1,162)	(355)	(4,100)
Net cash generated from operating activities	21,833	10,511	24,772	6,596	2,331
Investing activities					
Payments for acquisition of intangible assets	(7)	(521)	(229)	(204)	(59)
Payments for acquisition of property, plant and equipment	(962)	(3,484)	(2,412)	(1,114)	(1,669)
Payments for acquisition of investment properties	—	—	—	—	(4,115)
Interest received	604	629	632	256	381
Net cash used in investing activities	(365)	(3,376)	(2,009)	(1,062)	(5,462)

APPENDIX II**ACCOUNTANTS' REPORT ON THE TARGET GROUP**

	Year ended 31 December			Six months ended 30 June	
	2011	2012	2013	2013	2014
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
				<i>(unaudited)</i>	
Financing activities					
Dividend paid	—	(5,625)	(5,000)	(2,000)	(223)
Capital contributions by non-controlling interests	—	1,470	—	—	441
Payment for acquisition of additional interest in a subsidiary	—	—	—	—	(1,260)
Net cash used in financing activities	—	(4,155)	(5,000)	(2,000)	(1,042)
Net increase/(decrease) in cash and cash equivalents	21,468	2,980	17,763	3,534	(4,173)
Cash and cash equivalents at beginning of the year/period	22,372	43,840	46,814	46,814	64,559
Effect of foreign exchange rate changes	—	(6)	(18)	(10)	11
Cash and cash equivalents at end of the year/period	<u>43,840</u>	<u>46,814</u>	<u>64,559</u>	<u>50,338</u>	<u>60,397</u>

B. NOTES TO THE FINANCIAL INFORMATION**1. GENERAL INFORMATION**

The Target Company was incorporated in the PRC on 1 March 2000 with limited liability. The address of its registered office and principal place of business is located at Block 3 of Fan Shen Xu Sheng Industrial Area, Xiao Bai Mang, Xi Li, Nan Shan District, Shenzhen, the PRC (中國深圳市南山區西麗小白芒翻身旭生工業區三棟). The Target Group, comprising the Target Company and its subsidiaries, and Caretalk Technology Co., Ltd., is engaged in the research and development, manufacturing and sales of electrotherapeutic and physiotherapeutic devices and general medical examination devices. The principal activities of the subsidiaries are set out in note 21.

2. SIGNIFICANT ACCOUNTING POLICIES**(a) Statement of compliance**

The Financial Information have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards (“HKFRSs”), which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards (“HKASs”) and Interpretations issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. The Financial Information also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. A summary of the significant accounting policies adopted by the Target Group is set out below.

The HKICPA has issued certain new and revised HKFRSs that are first effective or available for early adoption for the current accounting period of the Target Group. For the purposes of preparing the Financial Information, the Target Group has not applied any new and revised HKFRS that is not yet effective for the Relevant Periods. The adoption of these new and revised HKFRSs has no significant impact on the Financial Information. The revised and new accounting standards and interpretations issued but not yet effective for the Relevant Periods are set out in note 27.

(b) Basis of preparation of the Financial Information

In preparation for the group reorganisation based on the Cooperation Agreement dated 8 May 2014, Dundex Medical (H.K.) Limited, a wholly-owned subsidiary of the Target Company shall acquire the entire interest in Caretalk from Zhao Zhigang, the holder of 70% of the equity interests in the Target Company (the “Reorganisation”).

As the controlling shareholders and key management who controlled Caretalk before and after the Reorganisation are the same, the Financial Information during the Relevant Periods are prepared as if the current group structure following the Reorganisation had been in existence throughout the Relevant Periods or since the respective dates of incorporation of the relevant entity within the Target Group, where this is a shorter period, in accordance with Accounting Guideline 5 “Merger Accounting for Common Control Combinations” issued by HKICPA.

The Financial Information comprise the financial information of the Target Company and its subsidiaries including Caretalk, for the Relevant Periods.

The measurement basis used in the preparation of the Financial Information is the historical cost basis. Items included in the Financial Information of each entity in the Target Group are measured using the currency that best reflects the economic substance of the underlying events and circumstances relevant to the entity. The functional currency of the Target Company, its subsidiary in the PRC and Caretalk is Renminbi ("RMB") and that of the Target Company's subsidiary in Hong Kong is Hong Kong Dollars ("HKD"). For the purpose of presenting the consolidated financial statements, the Target Group has adopted RMB as its presentation currency.

The preparation of Financial Information in conformity with HKFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Judgements made by management in the application of HKFRSs that have significant effect on the Financial Information and estimates with a significant risk of material adjustment in the next year are discussed in note 23.

(c) Subsidiaries and non-controlling interests

Subsidiaries are entities controlled by the Target Group. The Target Group controls an entity when it is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. When assessing whether the Target Group has power, only substantive rights (held by the Target Group and other parties) are considered.

An investment in a subsidiary is consolidated into the Financial Information from the date that control commences until the date that control ceases. Intra-group balances and transactions and cash flows and any unrealised profits arising from intra-group transactions are eliminated in full in preparing the Financial Information. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains but only to the extent that there is no evidence of impairment.

Non-controlling interests represents the equity in a subsidiary not attributable directly or indirectly to the Target Company, and in respect of which the Target Group has not agreed any additional terms with the holders of those interests which would result in the Target Group as a whole having a contractual obligation in respect of those interests that meets the definition of a financial liability.

Non-controlling interests are presented in the consolidated statement of financial position within equity, separately from equity attributable to the equity shareholders of the Target Company. Non-controlling interests in the results of the Target Group are presented on the face of the consolidated statement of profit or loss and the consolidated statement of profit or loss and comprehensive income as an allocation of the total profit or loss and total comprehensive income for the year between non-controlling interests and the equity shareholders of the Target Company. Total comprehensive income of subsidiaries is attributed to the owners of the Target Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance. Loans from holders of non-controlling interests and other contractual obligations towards these holders are presented as financial liabilities in the consolidated statement of financial position.

Changes in the Target Group's interests in a subsidiary that do not result in a loss of control are accounted for an equity transactions, whereby adjustments are made to the amounts of controlling and non-controlling interests within consolidated equity to reflect the change in relative interests, but no adjustment are made to goodwill and no gain or loss is recognised.

When the Target Group loses control of a subsidiary, it is accounted for as a disposal of the entire interest in that subsidiary, with a resulting gain or loss being recognised in profit or loss. Any interest retained in that former subsidiary at the date when control is lost is recognised at fair value and this amount is regarded as the fair value on initial recognition of a financial asset or, when appropriate, the cost on initial recognition of an investment in an associate or joint venture.

(d) (i) Business combinations

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Target Group, liabilities incurred by the Target Group to the former owners of the acquiree and the equity interests issued by the Target Group in exchange for control of the acquiree. Acquisition-related costs are generally recognised in profit or loss as incurred.

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognised at their fair values, except that:

- a deferred tax asset or liability arising from the assets acquired and liabilities assumed in a business combination and the potential tax effects of temporary differences and carryforwards of an acquiree that exist at the acquisition date or arise as a result of the acquisition are recognised and measured in accordance with HKAS 12 Income Taxes;
- assets or liabilities relating to employee benefit arrangements are recognised and measured in accordance with HKAS 19 Employee Benefits;
- liabilities or equity instruments related to share-based payment arrangements of the acquiree or share-based payment arrangements of the Target Group entered into to replace share-based payment arrangements of the acquiree are measured in accordance with HKFRS 2 Share-based Payment at the acquisition date (see the accounting policy below); and

- assets (or disposal groups) that are classified as held for sale in accordance with HKFRS 5 Non-current Assets Held for Sale and Discontinued Operations are measured in accordance with that Standard.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If, after re-assessment, the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognised immediately in profit or loss as a bargain purchase gain.

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation may be initially measured either at fair value or at the non-controlling interests' proportionate share of the recognised amounts of the acquiree's identifiable net assets. The choice of measurement basis is made on a transaction-by-transaction basis. Other types of non-controlling interests are measured at their fair value or, when applicable, on the basis specified in another HKFRS.

Where the consideration transferred by the Target Group in a business combination includes assets or liabilities resulting from a contingent consideration arrangement, the contingent consideration is measured at its acquisition-date fair value and included as part of the consideration transferred in a business combination. Changes in the fair value of the contingent consideration that qualify as measurement period adjustments are adjusted retrospectively, with the corresponding adjustments against goodwill. Measurement period adjustments are adjustments that arise from additional information obtained during the "measurement period" (which cannot exceed one year from the acquisition date) about facts and circumstances that existed at the acquisition date.

The subsequent accounting for changes in the fair value of the contingent consideration that do not qualify as measurement period adjustments depends on how the contingent consideration is classified. Contingent consideration that is classified as equity is not remeasured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Contingent consideration that is classified as an asset or a liability is remeasured at subsequent reporting dates in accordance with HKAS 39 Financial Instruments: Recognition and Measurement, or HKAS 37 Provisions, Contingent Liabilities and Contingent Assets, as appropriate, with the corresponding gain or loss being recognised in profit or loss.

When a business combination is achieved in stages, the Target Group's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date (i.e. the date when the Target Group obtains control) and the resulting gain or loss, if any, is recognised in profit or loss. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognised in other comprehensive income are reclassified to profit or loss where such treatment would be appropriate if that interest were disposed of.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Target Group reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted during the measurement period (see above), and additional assets or liabilities are recognised, to reflect new information obtained about facts and circumstances that existed at the acquisition date that, if known, would have affected the amounts recognised at that date.

(ii) Merger Accounting for Common Control Combinations

The consolidated financial statements incorporate the financial statements items of the combining entities or businesses in which the common control combination occurs as if they had been combined from the date when the combining entities or businesses first came under the control of the controlling party.

The net assets of the combining entities or businesses are consolidated using the existing book values from the controlling party's perspective. No amount is recognised in respect of goodwill or excess of acquirer's interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over cost at the time of common control combination, to the extent of the continuation of the controlling party's interest.

The consolidated statement of profit or loss and other comprehensive income/ statement of profit or loss includes the results of each of the combining entities or businesses from the earliest date presented or since the date when the combining entities or businesses first came under the common control, where this is a shorter period, regardless of the date of the common control combination.

The comparative amounts in the consolidated financial statements are presented as if the entities or businesses had been combined at the end of the previous reporting period or when they first came under common control, whichever is shorter.

(e) Investment properties

Investment properties are land and/or buildings which are owned or held under a leasehold interest (see note 2(h)) to earn rental income and/or for capital appreciation. These include land held for a currently undetermined future use and property that is being constructed or developed for future use as investment property.

Investment properties are stated in the statement of financial position at fair value, unless they are still in the course of construction or development at the end of the reporting period and their fair value cannot be reliably measured at the time. Any gain or loss arising from a change in fair value or from the retirement or disposal of an investment property is recognised in profit or loss.

(f) Property, plant and equipment

Property, plant and equipment, other than construction in progress, are stated in the balance sheet at historical cost less accumulated depreciation and impairment losses, if any (see note 2(i)(ii)).

Depreciation is calculated to write off the cost of items of property, plant and equipment, less their estimated residual value, if any, using the straight line method over their estimated useful lives as follows:

— Machinery and equipment	10 - 25 years
— Motor vehicles	6 years
— Furniture and office equipment	5 years

Where parts of an item of property, plant and equipment have different useful lives, the cost of the item is allocated on a reasonable basis between the parts and each part is depreciated separately. Both the useful life of an asset and its residual value, if any, are reviewed annually.

Historical cost includes expenditure that is directly attributable to the acquisition of the items. Cost may also include transfers from equity of any gains/losses on qualifying cash flow hedges of foreign currency purchases of property, plant and equipment.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Target Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are recognised in profit or loss during the financial period in which they are incurred.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains or losses arising from the retirement or disposal of an item of property, plant and equipment are determined as the difference between the net disposal proceeds and the carrying amount of the item and are recognised in profit or loss on the date of retirement or disposal.

(g) Intangible assets

Intangible assets with finite useful lives that are acquired separately are carried at costs less accumulated amortisation and any accumulated impairment losses. Amortisation is recognised on a straight-line basis over their estimated useful lives. The estimated useful life and amortisation method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis. Intangible assets with indefinite useful lives that are acquired separately are carried at cost less accumulated impairment losses.

The following intangible assets with finite useful lives are amortised from the date they are available for use and their estimated useful lives are as follows:

— Computer softwares	5 years
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(h) Leased assets

An arrangement, comprising a transaction or a series of transactions, is or contains a lease if the Target Group determines that the arrangement conveys a right to use a specific asset or assets for an agreed period of time in return for a payment or a series of payments. Such a determination is made based on an evaluation of the substance of the arrangement and is regardless of whether the arrangement takes the legal form of a lease.

(i) *Classification of assets leased to the Target Group*

Assets that are held by the Target Group under leases which transfer to the Target Group substantially all the risks and rewards of ownership are classified as being held under finance leases. Leases which do not transfer substantially all the risks and rewards of ownership to the Target Group are classified as operating leases, with the following exception:

- land held for own use under an operating lease, the fair value of which cannot be measured separately from the fair value of a building situated thereon at the inception of the lease, is accounted for as being held under a finance lease, unless the building is also clearly held under an operating lease. For these purposes, the inception of the lease is the time that the lease was first entered into by the Target Group, or taken over from the previous lessee.

(ii) *Operating lease charges*

Where the Target Group has the use of assets held under operating leases, payments made under the leases are charged to profit or loss in equal instalments over the accounting periods covered by the lease term. Lease incentives received are recognised in profit or loss as an integral part of the aggregate net lease payments made. Contingent rentals are charged to profit or loss in the accounting period in which they are incurred.

(i) **Impairment of assets**

(i) *Impairment of trade and other receivables*

Trade and other receivables and other financial assets that are stated at cost or amortised cost are reviewed at the end of each reporting period to determine whether there is objective evidence of impairment. Objective evidence of impairment includes observable data that comes to the attention of the Target Group about one or more of the following loss events:

- significant financial difficulty of the debtor;
- a breach of contract, such as a default or delinquency in interest or principal payments;
- it becoming probable that the debtor will enter bankruptcy or other financial reorganisation; and
- significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor.

If any such evidence exists, any impairment loss is determined and recognised as follows:

- For trade and other receivables and other financial assets carried at amortised cost, the impairment loss is measured as the difference between the asset's carrying amount and

the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition of these assets), where the effect of discounting is material. This assessment is made collectively where these financial assets share similar risk characteristics, such as similar past due status, and have not been individually assessed as impaired. Future cash flows for financial assets which are assessed for impairment collectively are based on historical loss experience for assets with credit risk characteristics similar to the collective group.

- If in a subsequent period the amount of an impairment loss decreases and the decrease can be linked objectively to an event occurring after the impairment loss was recognised, the impairment loss is reversed through profit or loss. A reversal of an impairment loss shall not result in the asset's carrying amount exceeding that which would have been determined had no impairment loss been recognised in prior years.

(ii) *Impairment of property, plant and equipment*

Impairment losses are written off against the corresponding assets directly, except for impairment losses recognised in respect of trade debtors included within trade and other receivables, whose recovery is considered doubtful but not remote. In this case, the impairment losses for doubtful debts are recorded using an allowance account. When the Target Group is satisfied that recovery is remote, the amount considered irrecoverable is written off against trade debtors directly and any amounts held in the allowance account relating to that debt are reversed. Subsequent recoveries of amounts previously charged to the allowance account are reversed against the allowance account. Other changes in the allowance account and subsequent recoveries of amounts previously written off directly are recognised in profit or loss.

Internal and external sources of information are reviewed at the end of each reporting period to identify indications that property, plant and equipment may be impaired or an impairment loss previously recognised no longer exists or may have decreased.

If any such indication exists, the asset's recoverable amount is estimated.

— *Calculation of recoverable amount*

The recoverable amount of an asset is the greater of its net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

— *Recognition of impairment losses*

An impairment loss is recognised in profit or loss whenever the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount. Impairment

losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the cash-generating unit (or group of units) and then, to reduce the carrying amount of the other assets in the unit (or group of units) on a pro rata basis, except that the carrying value of an asset will not be reduced below its individual fair value less costs of disposal (if measureable) or value in use (if determinable).

— *Reversals of impairment losses*

An impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount.

A reversal of impairment loss is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to profit or loss in the year in which the reversals are recognised.

(j) Inventories

Inventories are carried at the lower of cost and net realisable value.

Cost is calculated using the weighted average cost formula and comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

When inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised. The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any write-down of inventories is recognised as reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

(k) Trade and other receivables

Trade and other receivables are initially recognised at fair value and thereafter stated at amortised cost less allowance for impairment of doubtful debts (see note 2(h)(i)), except where the receivables are interest-free loans made to related parties without any fixed repayment terms or the effect of discounting would be immaterial. In such cases, the receivables are stated at cost less allowance for impairment of doubtful debts.

(l) Trade and other payables

Trade and other payables are initially recognised at fair value and subsequently stated at amortised cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

(m) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition.

(n) Employee benefits**(i) *Short term employee benefits and contributions to defined contribution retirement plans***

Salaries, annual bonuses, paid annual leave, contributions to defined contribution retirement plans and the cost of non-monetary benefits are accrued in the Relevant Periods in which the associated services are rendered by employees. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

(ii) *Termination benefits*

Termination benefits are recognised at the earlier of when the Target Group can no longer withdraw the offer of those benefits and when it recognizes restructuring costs involving the payment of termination benefits.

(o) Income tax

Income tax for the Relevant Periods comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in profit or loss except to the extent that they relate to items recognised in other comprehensive income or directly in equity, in which case the relevant amounts of tax are recognised in other comprehensive income or directly in equity, respectively.

Current tax is the expected tax payable on the taxable income for the Relevant Periods, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.

Apart from certain limited exceptions, all deferred tax liabilities, and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilised, are recognised. Future taxable profits that may support the recognition of deferred tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences, provided those differences relate to the same taxation authority and the same taxable entity, and are expected to reverse either in the same period as the

expected reversal of the deductible temporary difference or in periods into which a tax loss arising from the deferred tax asset can be carried back or forward. The temporary differences support the recognition of deferred tax assets arising from unused tax losses and credits, that is, those differences are taken into account if they relate to the same taxation authority and the same taxable entity, and are expected to reverse in a period, or periods, in which the tax loss or credit can be utilised.

The limited exceptions to recognition of deferred tax assets and liabilities are those temporary differences arising from the initial recognition of assets or liabilities that affect neither accounting nor taxable profit (provided they are not part of a business combination), in the case of taxable differences, the Target Group controls the timing of the reversal and it is probable that the differences will not reverse in the foreseeable future, or in the case of deductible differences, unless it is probable that they will reverse in the future.

The amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the end of each reporting period. Deferred tax assets and liabilities are not discounted.

The carrying amount of a deferred tax asset is reviewed at each balance sheet date and is reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow the related tax benefit to be utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profits will be available.

Additional income taxes that arise from the distribution of dividends are recognised when the liability to pay the related dividends is recognised.

Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not off set. Current tax assets are off set against current tax liabilities, and deferred tax assets against deferred tax liabilities, if the Target Group has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:

- in the case of current tax assets and liabilities, the Target Group intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or
- in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:
 - the same taxable entity; or
 - different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

(p) Provisions and contingent liabilities**(i) *Contingent liabilities assumed in business combinations***

Contingent liabilities assumed in a business combination which are present obligations at the date of acquisition are initially recognised at fair value, provided the fair value can be reliably measured. After their initial recognition at fair value, such contingent liabilities are recognised at the higher of the amount initially recognised, less accumulated amortisation where appropriate, and the amount that would be determined in accordance with note 2(p)(ii). Contingent liabilities assumed in a business combination that cannot be reliably fair valued or were not present obligations at the date of acquisition are disclosed in accordance with note 2(p)(ii).

(ii) *Provisions and contingent liabilities*

Provisions are recognised for liabilities of uncertain timing or amount when the Target Group has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditures expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

(q) Revenue recognition

Provided it is probable that the economic benefits will flow to the Target Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognised in profit or loss as follows:

(i) *Sale of goods*

Revenue is recognised when goods are delivered at the customers' premises, which is taken to be the point in time when the customer has accepted the goods and the related risks and rewards of ownership. Revenue excludes value added tax and other sales taxes and is stated after deduction of returns and discounts.

(ii) *Interest income*

Interest income is recognised as it accrues using the effective interest method.

(r) Translation of foreign currencies

Foreign currency transactions during the Relevant Periods are translated at the foreign exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rates ruling at the end of the reporting period. Exchange gains and losses are recognised in profit or loss.

Non-monetary assets and liabilities measured in terms of historical cost in a foreign currency are translated using the foreign exchange rates ruling at the transaction dates. Non-monetary assets and liabilities denominated in foreign currencies stated at fair value are translated using the foreign exchange rates ruling at the dates the fair value was measured.

The results of foreign operations are translated into RMB at the exchange rates approximating the foreign exchange rates ruling at the dates of the transactions. Statement of financial position items are translated into RMB at the closing foreign exchange rates ruling at the end of the reporting period. The resulting exchange differences are recognised in other comprehensive income and accumulated separately in equity in the exchange reserve.

(s) Borrowing costs

Borrowing costs are expensed in profit or loss in the period in which they are incurred, except to the extent that they are capitalised as being directly attributable to the acquisition, construction or production of an asset which necessarily takes a substantial period of time to get ready for its intended use or sale.

The capitalisation of borrowing costs as part of the cost of a qualifying asset commences when expenditure for the asset is being incurred, borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use or sale are in progress. Capitalisation of borrowing costs is suspended or ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are interrupted or complete.

(t) Government grants

Government grants are recognised in the statement of financial position initially as deferred income when there is reasonable assurance that they will be received and that the Target Group will comply with the conditions attaching to them. Grants that compensate the Target Group for expenses incurred are recognised as revenue in profit or loss on a systematic basis in the same periods in which the expenses are incurred. Grants that compensate the Target Group for the cost of an asset are deducted in arriving at the carrying amount of the asset and consequently are recognised in profit or loss over the useful life of the asset.

(u) Related parties

- (a) A person, or a close member of that person's family, is related to the Target Group if that person:
 - (i) has control or joint control over the Target Group;
 - (ii) has significant influence over the Target Group; or
 - (iii) is a member of the key management personnel of the Target Group.
- (b) An entity is related to the Target Group if any of the following conditions applies:

- (i) The entity and the Target Group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).
- (ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).
- (iii) Both entities are joint ventures of the same third party.
- (iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.
- (v) The entity is a post-employment benefit plan for the benefit of employees of either the Target Group or an entity related to the Target Group.
- (vi) The entity is controlled or jointly controlled by a person identified in (a).
- (vii) A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity.

(v) Segment reporting

Operating segments, and the amounts of each segment item reported in the financial statements, are identified from the financial information provided regularly to the Target Group's senior executive management, i.e. the chief operation decision-makers, for the purposes of allocating resources to, and assessing the performance of, the Target Group's various lines of business and geographical locations.

Individually material operating segments are not aggregated for financial reporting purposes unless the segments have similar economic characteristics and are similar in respect of the nature of products and services, the nature of production processes, the type or class of customers, the methods used to distribute the products or provide the services, and the nature of the regulatory environment. Operating segments which are not individually material may be aggregated if they share a majority of these criteria.

3. TURNOVER

The Target Group is engaged in the research and development, manufacturing and sales of electrotherapeutic and physiotherapeutic devices and general medical examination devices.

Turnover represents the solely net invoiced value of goods sold, net of value added tax and sales related taxes, for the Relevant Periods.

4. OTHER REVENUE AND OTHER NET (LOSS)/GAIN

	Year ended 31 December			Six months ended	
	2011	2012	2013	30 June 2013	2014
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
	(unaudited)				
Other revenue					
Interest income on financial assets not at fair value through profit or loss	604	629	632	256	381
Subsidy income	457	586	380	259	118
Others	74	1,081	446	8	167
	<u>1,135</u>	<u>2,296</u>	<u>1,458</u>	<u>523</u>	<u>666</u>
Other net (loss)/gain					
Exchange (loss)/gain	(635)	(400)	(1,839)	(991)	637
Impairment loss on trade debtors	—	(225)	—	—	—
Fair value losses on investment properties	—	—	—	—	(555)
Loss on disposal of property, plant and equipment	(18)	(16)	(24)	(6)	(3)
	<u>(653)</u>	<u>(641)</u>	<u>(1,863)</u>	<u>(997)</u>	<u>79</u>

5. PROFIT BEFORE TAXATION

Profit before income tax is arrived at after charging:

	Year ended 31 December			Six months ended	
	2011	2012	2013	30 June 2013	2014
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
	(unaudited)				
(a) Staff costs					
Salaries, wages and benefits	15,707	19,093	17,586	7,055	8,585
Contributions to retirement benefit schemes	883	795	1,732	776	704
	<u>16,590</u>	<u>19,888</u>	<u>19,318</u>	<u>7,831</u>	<u>9,289</u>

	Year ended 31 December			Six months ended 30 June	
	2011	2012	2013	2013	2014
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				<i>(unaudited)</i>	
(b) Other items					
Amortisation of intangible assets	97	145	215	104	112
Cost of inventories sold (note)	66,716	72,334	89,425	41,676	41,921
Depreciation	691	936	1,639	801	1,058
Loss on disposal of property, plant and equipment	18	16	24	6	2
Operating lease charges in respect of land and buildings	<u>2,298</u>	<u>3,015</u>	<u>2,277</u>	<u>1,175</u>	<u>1,288</u>

Note:

Cost of inventories includes RMB12,899,000, RMB14,000, RMB16,036,000, RMB5,357 and RMB5,534 relating to staff costs, depreciation and amortisation expenses for the years ended 31 December 2011, 2012 and 2013 and the periods for the six months ended 30 June 2013 and 2014, respectively, which amounts are also included in the respective total amounts disclosed separately above for each of these types of expenses.

6. INCOME TAX

(a) Income tax in the consolidated statement of profit or loss represents:

	Year ended 31 December			Six months ended 30 June	
	2011	2012	2013	2013	2014
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				<i>(unaudited)</i>	
Current tax					
PRC Enterprise Income Tax ("EIT")	5,321	5,117	5,179	2,541	3,591
Deferred tax					
Origination and reversal of temporary differences (note 19(c))	<u>—</u>	<u>(34)</u>	<u>—</u>	<u>—</u>	<u>(83)</u>
Total	<u>5,321</u>	<u>5,083</u>	<u>5,179</u>	<u>2,541</u>	<u>3,508</u>

According to the Implementation Regulation of the EIT Law and Circular of State Administration of Taxation on Issues Concerning Implementation of Preferential Income Tax Enjoyed by High-and-new-tech Enterprises (Guo Shui Han 2009 No. 203), high-and-new-tech enterprises are levied enterprise income tax at 15%. The Target Company is entitled to enjoy a preferential income tax rate at 15% during the Relevant Periods. Caretalk and Zhilang Jinggong are subject to PRC Enterprise Income Tax at 25% on their assessable profits during the Relevant Periods. Caretalk, which was established in the BVI, has been regarded to have a permanent establishment in the PRC, for the PRC Enterprise Income Tax purpose, as it has been conducting its business in Shenzhen, the PRC during the Relevant Periods. Dundex Medical is subject to Hong Kong Profits Tax at tax rate of 16.5%. No provision for Hong Kong Profits Tax has been made for Dundex Medical as it has not yet commenced its business, other than the Reorganisation, during the Relevant Periods.

No provision for Hong Kong Profits Tax has been provided as the Target Group did not have any assessable profits sourced from Hong Kong during the Relevant Periods.

(b) **Reconciliation between tax expense and accounting profit at applicable tax rates:**

	Year ended 31 December			Six months ended	
	2011	2012	2013	2013	2014
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
	(unaudited)				
Profit before income tax	<u>25,614</u>	<u>23,971</u>	<u>31,664</u>	<u>9,614</u>	<u>18,971</u>
Notional tax on profit before taxation calculated at applicable tax rate	6,404	5,994	7,917	2,404	4,760
Tax effect of non-deductible expenses	364	640	694	737	439
Tax effect of non-taxable income	(310)	(514)	(560)	(146)	(81)
Tax concessions	<u>(1,137)</u>	<u>(1,003)</u>	<u>(2,872)</u>	<u>(454)</u>	<u>(1,527)</u>
Actual tax expenses	<u>5,321</u>	<u>5,117</u>	<u>5,179</u>	<u>2,541</u>	<u>3,591</u>

7. DIRECTORS' EMOLUMENTS

Details of directors' emoluments during the Relevant Periods are as follows:

		Basic salaries, allowances and other benefits	Bonus	Contribution to retirement benefits schemes	Total
	Fees RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Year ended 31 December 2011					
Executive directors					
Zhao Zhigang	—	360	—	23	383
Wen Zhongxing (<i>note</i>)	—	289	134	16	439
	—	649	134	39	822
Year ended 31 December 2012					
Executive directors					
Zhao Zhigang	—	663	271	28	962
Wen Zhongxing (<i>note</i>)	—	305	—	18	323
	—	968	271	46	1,285
Year ended 31 December 2013					
Executive director					
Zhao Zhigang	—	663	275	33	971
	—	663	275	33	971
Six months ended 30 June 2014					
Executive director					
Zhao Zhigang	—	331	—	16	347
	—	331	—	16	347
Six months ended 30 June 2013 (Unaudited)					
Executive director					
Zhao Zhigang	—	331	275	16	622
	—	331	275	16	622

Note:

Wen Zhongxing resigned on 6 April 2012.

During the Relevant Periods, no emoluments were paid by the Target Group to the directors and those individuals with highest emoluments (note 8 below) as an inducement to join or upon joining the Target Group or as compensation for loss of office. No directors waived or agreed to waive any emoluments during the Relevant Periods.

8. INDIVIDUALS WITH HIGHEST EMOLUMENTS

The five highest paid individuals of the Target Group during the Relevant Periods include 2, 2, 1, 1 and 1 directors during the years ended 31 December 2011, 2012 and 2013 and the period for the six months ended 30 June 2013 and 2014 respectively, whose emoluments are disclosed in note 7. The aggregate of the emoluments in respect of the remaining individuals are as follows:

	Year ended 31 December			Six months ended	
	2011	2012	2013	2013	2014
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				<i>(unaudited)</i>	
Salaries and allowances	602	1,699	2,069	1,257	725
Retirement scheme contributions	<u>21</u>	<u>66</u>	<u>69</u>	<u>35</u>	<u>35</u>
	<u>623</u>	<u>1,765</u>	<u>2,138</u>	<u>1,292</u>	<u>760</u>

The emoluments of all individuals other than the directors with the highest emoluments were within the range of nil to RMB1,000,000 during the Relevant Periods, except for 1 individual with the highest emoluments for the year ended 31 December 2013 was within the range of RMB1,000,000 to RMB2,000,000.

9. DIVIDENDS

	Year ended 31 December			Six months ended	
	2011	2012	2013	2013	2014
	RMB	RMB	RMB	RMB	RMB
				<i>(unaudited)</i>	
Interim dividend declared and payable, per each RMB of registered capital	<u>—</u>	<u>2.813</u>	<u>2.500</u>	<u>1.000</u>	<u>0.112</u>
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Interim dividend declared and payable	<u>—</u>	<u>5,625</u>	<u>5,000</u>	<u>2,000</u>	<u>223</u>

10. PROFIT ATTRIBUTABLE TO OWNERS OF THE TARGET COMPANY

The consolidated profit attributable to owners of the Target Company includes a profit of RMB10,455,000, RMB9,735,000, RMB25,506,000, RMB2,090,000 and RMB12,519,000 for the three years ended 31 December 2011, 2012 and 2013, and the periods for the six months ended 30 June 2013 and 2014, respectively, which has been dealt with in the financial statements of the Target Company for the Relevant Periods.

11. SEGMENT REPORTING**(a) Business segment**

The Target Group principally operates a single business segment which is research and development, manufacturing and sales of electrotherapeutic and physiotherapeutic devices and general medical examination devices in the Relevant Periods. No business segment analysis is presented accordingly.

(b) Geographic information

The following table provides an analysis of the Target Group's revenue from external customers:

	Year ended 31 December			Six months ended	
	2011	2012	2013	2013	2014
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
	<i>(unaudited)</i>				
The PRC (excluding Hong Kong) (place of domicile)	843	777	1,110	835	845
Hong Kong	16,877	16,397	15,151	11,351	13,201
Europe	52,342	49,386	57,476	16,882	31,418
The United States	37,429	45,128	59,066	29,354	23,332
Australia	5,524	5,664	13,104	5,479	2,983
Russia	1,280	4,368	1,726	889	1,704
Others	2,319	2,009	467	955	1,053
	115,771	122,952	146,990	64,910	73,691
	116,614	123,729	148,100	65,745	74,536

The principal non-current assets of the Target Group were located in the PRC during the Relevant Periods.

(c) Information about major customers

Revenue from customers contributing 10% or more of the total sales of the Target Group are as follows:

	Year ended 31 December			Six months ended	
	2011	2012	2013	30 June 2013	2014
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
				<i>(unaudited)</i>	
Customer A	33,289	37,317	41,856	22,923	19,179
Customer B	28,502	27,230	20,622	6,005	12,059
Customer C	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>	<u>7,480</u>	<u>9,488</u>

These customers are independent third parties of the Target Group and the Company.

12. INTANGIBLE ASSETS

The Target Group and the Target Company

	Computer softwares <i>RMB'000</i>
Cost	
At 1 January 2011	481
Additions	<u>7</u>
At 31 December 2011 and 1 January 2012	488
Additions	<u>521</u>
At 31 December 2012 and 1 January 2013	1,009
Additions	<u>229</u>
At 31 December 2013, 1 January 2014	1,238
Additions	<u>59</u>
At 30 June 2014	<u>1,297</u>
Accumulated amortisation and impairment losses	
At 1 January 2011	107
Charge for the year	<u>97</u>
At 31 December 2011 and 1 January 2012	204
Charge for the year	<u>145</u>
At 31 December 2012 and 1 January 2013	349
Charge for the year	<u>215</u>
At 31 December 2013 and 1 January 2014	564
Charge for the period	<u>112</u>
At 30 June 2014	<u>676</u>
Carrying amounts	
At 31 December 2011	<u>284</u>
At 31 December 2012	<u>660</u>
At 31 December 2013	<u>674</u>
At 30 June 2014	<u>621</u>

13. PROPERTY, PLANT AND EQUIPMENT

The Target Group

	Leasehold improvements <i>RMB'000</i>	Plant and machinery <i>RMB'000</i>	Furniture and office equipment <i>RMB'000</i>	Motor vehicles <i>RMB'000</i>	Total <i>RMB'000</i>
Cost					
At 1 January 2011	—	4,208	1,250	342	5,800
Additions	—	779	183	—	962
Disposal	—	(610)	—	—	(610)
At 31 December 2011 and 1 January 2012	—	4,377	1,433	342	6,152
Additions	2,004	780	700	—	3,484
Disposal	—	(7)	(9)	—	(16)
At 31 December 2012 and 1 January 2013	2,004	5,150	2,124	342	9,620
Transfer	—	(24)	24	—	—
Additions	230	1,879	196	107	2,412
Disposal	—	(21)	(123)	(192)	(336)
At 31 December 2013 and 1 January 2014	2,234	6,984	2,221	257	11,696
Additions	—	986	125	558	1,669
Disposal	—	—	(7)	—	(7)
At 30 June 2014	<u>2,234</u>	<u>7,970</u>	<u>2,339</u>	<u>815</u>	<u>13,358</u>

	Leasehold improvements <i>RMB'000</i>	Plant and machinery <i>RMB'000</i>	Furniture and office equipment <i>RMB'000</i>	Motor vehicles <i>RMB'000</i>	Total <i>RMB'000</i>
Accumulated depreciation and impairment losses					
At 1 January 2011	—	2,215	555	179	2,949
Charge for the year	—	432	205	54	691
Written-off on disposal	—	(592)	—	—	(592)
At 31 December 2011 and 1 January 2012	—	2,055	760	233	3,048
Charge for the year	111	527	269	29	936
Written-off on disposal	—	—	—	—	—
At 31 December 2012 and 1 January 2013	111	2,582	1,029	262	3,984
Transfer	—	(30)	30	—	—
Charge for the year	672	598	321	48	1,639
Written-off on disposal	—	(14)	(112)	(186)	(312)
At 31 December 2013 and 1 January 2014	783	3,136	1,268	124	5,311
Charge for the period	357	489	178	34	1,058
Written-off on disposal	—	—	(4)	—	(4)
At 30 June 2014	<u>1,140</u>	<u>3,625</u>	<u>1,442</u>	<u>158</u>	<u>6,365</u>
Carrying amounts					
At 31 December 2011	<u>—</u>	<u>2,322</u>	<u>673</u>	<u>109</u>	<u>3,104</u>
At 31 December 2012	<u>1,893</u>	<u>2,568</u>	<u>1,095</u>	<u>80</u>	<u>5,636</u>
At 31 December 2013	<u>1,451</u>	<u>3,848</u>	<u>953</u>	<u>133</u>	<u>6,385</u>
At 30 June 2014	<u>1,094</u>	<u>4,345</u>	<u>897</u>	<u>657</u>	<u>6,993</u>

The Target Company

	Leasehold improvements <i>RMB'000</i>	Plant and machinery <i>RMB'000</i>	Furniture and office equipment <i>RMB'000</i>	Motor vehicles <i>RMB'000</i>	Total <i>RMB'000</i>
Cost					
At 1 January 2011	—	4,208	1,250	342	5,800
Additions	—	779	183	—	962
Disposal	—	(610)	—	—	(610)
At 31 December 2011 and 1 January 2012	—	4,377	1,433	342	6,152
Additions	2,004	888	565	—	3,457
Disposal	—	(1,044)	—	—	(1,044)
At 31 December 2012 and 1 January 2013	2,004	4,221	1,998	342	8,565
Transfer	—	(24)	24	—	—
Additions	230	1,710	159	107	2,206
Disposal	—	(2,161)	(169)	(192)	(2,522)
At 31 December 2013 and 1 January 2014	2,234	3,746	2,012	257	8,249
Additions	—	974	116	558	1,648
Disposal	—	—	(7)	—	(7)
At 30 June 2014	<u>2,234</u>	<u>4,720</u>	<u>2,121</u>	<u>815</u>	<u>9,890</u>

APPENDIX II**ACCOUNTANTS' REPORT ON THE TARGET GROUP**

	Leasehold improvements	Plant and machinery	Furniture and office equipment	Motor vehicles	Total
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Accumulated depreciation and impairment losses					
At 1 January 2011	—	2,215	555	179	2,949
Charge for the year	—	432	205	54	691
Written-off on disposal	—	(592)	—	—	(592)
At 31 December 2011 and 1 January 2012	—	2,055	760	233	3,048
Charge for the year	111	520	269	29	929
Written-off on disposal	—	(232)	(9)	—	(241)
At 31 December 2012 and 1 January 2013	111	2,343	1,020	262	3,736
Transfer	—	(30)	30	—	—
Charge for the year	672	410	320	48	1,450
Written-off on disposal	—	(1,152)	(140)	(186)	(1,478)
At 31 December 2013 and 1 January 2014	783	1,571	1,230	124	3,708
Charge for the period	357	325	169	34	885
Written-off on disposal	—	—	(4)	—	(4)
At 30 June 2014	<u>1,140</u>	<u>1,896</u>	<u>1,395</u>	<u>158</u>	<u>4,589</u>
Carrying amounts					
At 31 December 2011	<u>—</u>	<u>2,322</u>	<u>673</u>	<u>109</u>	<u>3,104</u>
At 31 December 2012	<u>1,893</u>	<u>1,878</u>	<u>978</u>	<u>80</u>	<u>4,829</u>
At 31 December 2013	<u>1,451</u>	<u>2,175</u>	<u>782</u>	<u>133</u>	<u>4,541</u>
At 30 June 2014	<u>1,094</u>	<u>2,824</u>	<u>726</u>	<u>657</u>	<u>5,301</u>

14. INVESTMENT PROPERTIES

The Target Group and the Target Company's property held under operating leases to earn rentals are measured using the fair value model and are classified and accounted for as investment properties.

The Target Group and the Target Company**PRC — medium-term leases***RMB'000*

At 1 January 2011, 31 December 2011, 1 January 2012, 31 December

2012, 1 January 2013, 31 December 2013 and 1 January 2014

—

Additions

- acquisition from Zhao Zhigang

3,993

- others

122

Net decrease in fair value recognised in profit or loss

(555)

At 30 June 2014

3,560

All the fair value losses recognised in profit or loss for the Relevant Periods arise from the properties held at 30 June 2014.

Fair value measurement of properties

The following table presents the fair value of the Target Group's properties measured at the end of the reporting period on a recurring basis, categorised into the three-level fair value hierarchy as defined in HKFRS 13 Fair value measurement. The level into which a fair value measurement is classified is determined with reference to the observability and significance of the inputs used in the valuation technique as follows:

- Level 1 valuations: Fair value measured using only Level 1 inputs i.e. unadjusted quoted prices in active markets for identical assets or liabilities at the measurement date
- Level 2 valuations: Fair value measured using Level 2 inputs i.e. observable inputs which fail to meet Level 1, and not using significant unobservable inputs. Unobservable inputs are inputs for which market data are not available
- Level 3 valuations: Fair value measured using significant unobservable inputs

The Target Group and the Target Company

	As at 31 December			As at
	2011	2012	2013	30 June
	RMB'000	RMB'000	RMB'000	2014
				RMB'000
Recurring fair value measurement				
Residential - PRC				
— Fair value measurements categorised into Level 2	<u>—</u>	<u>—</u>	<u>—</u>	<u>3,560</u>

During the Relevant Periods, there were no transfers between Level 1 and Level 2, or transfers into or out of Level 3. The Target Group's policy is to recognize transfers between levels of fair value hierarchy as at the end of the reporting period in which they occur.

All of the Target Group's investment properties were revalued at the end of the Relevant Periods. The valuations were carried out an independent firm of surveyors, Roma Appraisals Limited, who have among their staff Fellows of the Hong Kong Institute of Surveyors with recent experience in the location and category of properties being valued. The Target Group's management had discussions with the surveyors on the valuation assumptions and valuation results when the valuation at 30 June 2014 was performed.

Valuation techniques and inputs used in Level 2 fair value measurements

The fair value of investment properties located in the PRC is determined using market comparison approach by reference to recent sales price of comparable properties on a price per square metre basis using market data which is publicly available.

15. INVENTORIES

The Target Group

	As at 31 December			As at
	2011	2012	2013	30 June
	RMB'000	RMB'000	RMB'000	2014
				RMB'000
Raw materials	4,682	4,242	2,638	2,533
Work in progress	2,738	2,954	3,995	2,976
Finished goods	<u>4,541</u>	<u>4,174</u>	<u>5,789</u>	<u>4,845</u>
	<u>11,961</u>	<u>11,370</u>	<u>12,422</u>	<u>10,354</u>

APPENDIX II**ACCOUNTANTS' REPORT ON THE TARGET GROUP****The Target Company**

	As at 31 December			As at 30 June
	2011	2012	2013	2014
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Raw materials	4,682	4,242	2,507	2,434
Work in progress	2,738	2,902	3,182	2,657
Finished goods	<u>4,541</u>	<u>4,173</u>	<u>5,680</u>	<u>4,526</u>
	<u>11,961</u>	<u>11,317</u>	<u>11,369</u>	<u>9,617</u>

The analysis of the amount of inventories recognised as an expense is as follows:

The Target Group

	Year ended 31 December			Six months ended 30 June	
	2011	2012	2013	2013	2014
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
				<i>(unaudited)</i>	
Carrying amount of inventories sold	<u>66,716</u>	<u>72,334</u>	<u>89,425</u>	<u>41,676</u>	<u>41,921</u>

16. TRADE AND OTHER RECEIVABLES**The Target Group**

	As at 31 December			As at 30 June
	2011	2012	2013	2014
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Trade debtors (<i>notes (a) to (c)</i>)	3,088	8,759	10,018	9,528
Deposits and prepayments	786	447	1,033	1,054
Value-added tax recoverable	5,603	1,130	147	—
Short-term advance	6,963	3,774	—	—
Other receivables	645	726	1,735	2,400
Amount due from a director (<i>note (d)</i>)	<u>311</u>	<u>15,549</u>	<u>32,610</u>	<u>39,500</u>
	<u>17,396</u>	<u>30,385</u>	<u>45,543</u>	<u>52,482</u>

The Target Company

	As at 31 December			As at
	2011	2012	2013	30 June
	RMB'000	RMB'000	RMB'000	2014
				RMB'000
Trade debtors (<i>notes (a) to (c)</i>)	293	6,511	4,830	8,981
Deposits and prepayments	786	447	921	942
Value-added tax recoverable	5,603	997	147	—
Other receivables	645	685	1,698	2,325
Amount due from a director (<i>note (d)</i>)	—	—	—	1,969
Amounts due from subsidiaries (<i>note (e)</i>)	1,403	2,886	18,650	471
	<u>8,730</u>	<u>11,526</u>	<u>26,246</u>	<u>14,688</u>

Notes:

(a) Ageing analysis

The ageing analysis of the trade debtors (net of allowance for doubtful debts) is as follows:

The Target Group

	As at 31 December			As at
	2011	2012	2013	30 June
	RMB'000	RMB'000	RMB'000	2014
				RMB'000
0 - 90 days	3,088	8,759	10,018	9,528
91 - 180 days	—	—	—	—
Over 180 days	—	—	—	—
	<u>3,088</u>	<u>8,759</u>	<u>10,018</u>	<u>9,528</u>

The Target Company

	As at 31 December			As at
	2011	2012	2013	30 June
	RMB'000	RMB'000	RMB'000	2014
				RMB'000
0 - 90 days	293	6,511	4,830	8,981
91 - 180 days	—	—	—	—
Over 180 days	—	—	—	—
	<u>293</u>	<u>6,511</u>	<u>4,830</u>	<u>8,981</u>

APPENDIX II**ACCOUNTANTS' REPORT ON THE TARGET GROUP**

The Target Group generally granted credit terms to its customers ranging from full repayment before to 90 days after delivery during the Relevant Periods. Up to the date of the Accountants' Report, all of the trade debtors of the Target Group were subsequently settled.

(b) Impairment of trade debtors

Impairment losses in respect of trade debtors are recorded using an allowance account unless the Target Group is satisfied that recovery of the amount is remote, in which case the impairment loss is written off against trade debtors directly (see note 2(i)(i)).

*Movements in the allowance for doubtful debts***The Target Group and the Target Company**

	As at 31 December			As at
	2011	2012	2013	30 June
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
At the beginning of the year/period	—	—	225	218
Impairment loss recognised	—	225	—	—
Currency alignment	—	—	(7)	—
Bad debts written off	—	—	—	(218)
	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
At the end of the year/period	<u>—</u>	<u>225</u>	<u>218</u>	<u>—</u>

As at 31 December 2012 and 2013, and 30 June 2014, trade debtors of the Target Group and the Target Company amounted to RMB225,000, RMB218,000 and RMB Nil were individually determined to be impaired. The individually impaired receivables were due from a customer in relation to delivery of goods for replacement, which had a high risk of default. Accordingly, specific allowances for doubtful debts of RMB225,000, RMB218,000 and RMB Nil at 31 December 2012 and 2013, and 30 June 2014 were recognised.

(c) Trade debtors that are not impaired

The ageing analysis of trade debtors that are neither individually nor collectively considered to be impaired are as follows:

The Target Group

	As at 31 December			As at
	2011	2012	2013	30 June
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Neither past due nor impaired	<u>3,088</u>	<u>8,759</u>	<u>10,018</u>	<u>9,528</u>

APPENDIX II**ACCOUNTANTS' REPORT ON THE TARGET GROUP****The Target Company**

	As at 31 December			As at
	2011	2012	2013	30 June
	RMB'000	RMB'000	RMB'000	2014
				RMB'000
Neither past due nor impaired	<u>293</u>	<u>6,511</u>	<u>4,830</u>	<u>8,981</u>

Receivables that were neither past due nor impaired relate to a wide range of customers for whom there was no recent history of default. Based on past experience, management believes that no impairment allowance is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable. The Target Group and the Target Company do not hold any collateral over these balances.

- (d) Amount due from a director, Zhao Zhigang, is of non-trade in nature, interest-free, unsecured and repayable on demand. The maximum amounts outstanding during each Relevant Periods are as follows:

The Target Group

	As at 31 December			As at
	2011	2012	2013	30 June
	RMB'000	RMB'000	RMB'000	2014
				RMB'000
Maximum amounts outstanding during the year/period	<u>311</u>	<u>15,549</u>	<u>32,610</u>	<u>39,500</u>

- (e) Amounts due from subsidiaries are interest-free, unsecured and repayable on demand.

17. CASH AND CASH EQUIVALENTS**The Target Group**

	As at 31 December			As at
	2011	2012	2013	30 June
	RMB'000	RMB'000	RMB'000	2014
				RMB'000
Cash at banks	43,728	46,734	64,412	60,205
Cash in hand	<u>112</u>	<u>80</u>	<u>147</u>	<u>192</u>
Cash and cash equivalents in the consolidated statements of financial position and cash flows	<u>43,840</u>	<u>46,814</u>	<u>64,559</u>	<u>60,397</u>

The Target Company

	As at 31 December			As at
	2011	2012	2013	30 June
	RMB'000	RMB'000	RMB'000	2014
				RMB'000
Cash at banks	23,155	20,985	32,287	49,590
Cash in hand	<u>15</u>	<u>13</u>	<u>46</u>	<u>49</u>
Cash and cash equivalents in the statements of financial position	<u>23,170</u>	<u>20,998</u>	<u>32,333</u>	<u>49,639</u>

18. TRADE AND OTHER PAYABLES**The Target Group**

	As at 31 December			As at
	2011	2012	2013	30 June
	RMB'000	RMB'000	RMB'000	2014
				RMB'000
Trade payables (<i>note (a)</i>)	14,142	11,138	17,225	16,325
Accrued charges and other payables	7,689	11,083	11,217	8,056
Receipts in advance	5,445	3,569	8,584	3,629
Amounts due to shareholders (<i>note (b)</i>)	<u>—</u>	<u>2,000</u>	<u>—</u>	<u>—</u>
	<u>27,276</u>	<u>27,790</u>	<u>37,026</u>	<u>28,010</u>

The Target Company

	As at 31 December			As at
	2011	2012	2013	30 June
	RMB'000	RMB'000	RMB'000	2014
				RMB'000
Trade payables (<i>note (a)</i>)	13,778	11,138	16,665	15,204
Accrued charges and other payables	3,165	4,238	2,051	2,028
Receipts in advance	3,315	2,819	3,110	3,613
Amounts due to shareholders (<i>note (b)</i>)	<u>—</u>	<u>2,000</u>	<u>—</u>	<u>—</u>
Amount due to a subsidiary (<i>note (c)</i>)	<u>—</u>	<u>—</u>	<u>552</u>	<u>1,960</u>
	<u>20,258</u>	<u>20,195</u>	<u>22,378</u>	<u>22,805</u>

Notes:

- (a) An ageing analysis of the trade payables is as follows:

The Target Group

	As at 31 December			As at
	2011	2012	2013	30 June
	RMB'000	RMB'000	RMB'000	2014
				RMB'000
0 - 90 days	13,304	9,560	16,139	15,122
91 - 180 days	643	500	83	122
181 - 365 days	195	1,078	71	98
Over 365 days	—	—	932	983
	<u>14,142</u>	<u>11,138</u>	<u>17,225</u>	<u>16,325</u>

The Target Company

	As at 31 December			As at
	2011	2012	2013	30 June
	RMB'000	RMB'000	RMB'000	2014
				RMB'000
0 - 90 days	12,940	9,560	15,588	14,001
91 - 180 days	643	500	79	122
181 - 365 days	195	1,078	66	98
Over 365 days	—	—	932	983
	<u>13,778</u>	<u>11,138</u>	<u>16,665</u>	<u>15,204</u>

- (b) At 31 December 2012, amounts due to shareholders of the Target Company, Zhao Zhigang, Zhao Wen and Wen Zhongxing (a former shareholder of the Target Company), of RMB700,000, RMB300,000 and RMB1,000,000, respectively, were of non-trade in nature, interest-free, unsecured and repayable on demand. There was no balance payable to each of them at 31 December 2011 and 2013 and 30 June 2014.
- (c) Amount due to a subsidiary, Shenzhen Zhilang Jinggong Technology Company Limited, is of non-trade in nature, interest-free, unsecured and repayable on demand.

19. INCOME TAX IN THE STATEMENT OF FINANCIAL POSITION

(a) Current taxation in the consolidated statement of financial position represents:

The Target Group

	As at 31 December			As at 30 June
	2011	2012	2013	2014
	RMB'000	RMB'000	RMB'000	RMB'000
PRC Enterprise Income Tax				
— Balance of tax relating to current year/period	4,089	3,549	4,089	2,803
— Balance of tax provision relating to prior years/periods	—	3,615	7,090	7,867
	<u>4,089</u>	<u>7,164</u>	<u>11,179</u>	<u>10,670</u>

(b) Current taxation in the Target Company's statement of financial position represents:

The Target Company

	As at 31 December			As at 30 June
	2011	2012	2013	2014
	RMB'000	RMB'000	RMB'000	RMB'000
PRC Enterprise Income Tax				
— Balance of tax relating to current year/period	473	75	3,219	1,515
— Balance of tax provision relating to prior years/periods	—	—	—	—
	<u>473</u>	<u>75</u>	<u>3,219</u>	<u>1,515</u>

- (c) The components of deferred tax assets recognised in the consolidated statement of financial position and the movements during the Relevant Periods are as follows:

The Target Group and the Target Company

	Impairment loss on trade debtors <i>RMB'000</i>	Fair value change of investment properties <i>RMB'000</i>	Total <i>RMB'000</i>
At 1 January 2011, 31 December 2011 and 1 January 2012	—	—	—
Credited to profit or loss	<u>34</u>	<u>—</u>	<u>34</u>
At 31 December 2012, 1 January 2013, 31 December 2013 and 1 January 2014	34	—	34
Credited to profit or loss	<u>—</u>	<u>83</u>	<u>83</u>
At 30 June 2014	<u><u>34</u></u>	<u><u>83</u></u>	<u><u>117</u></u>

There were no significant unrecognised deferred tax assets or liabilities at each reporting period end during the Relevant Periods.

20. CAPITAL AND RESERVES

The reconciliation between the opening and closing balances of each component of the Target Group's equity is set out in the consolidated statements of change in equity on page 36.

APPENDIX II**ACCOUNTANTS' REPORT ON THE TARGET GROUP**

The reconciliation between the opening and closing balances of each component of the Target Company's equity is set out as follows:

	Paid-up capital <i>RMB'000</i> <i>(Note 20(a))</i>	Statutory reserve <i>RMB'000</i> <i>(Note 20(b))</i>	Retained profits <i>RMB'000</i>	Total <i>RMB'000</i>
At 1 January 2011	2,000	1,811	12,252	16,063
Changes in equity:				
Total comprehensive income for the year	<u>—</u>	<u>—</u>	<u>10,455</u>	<u>10,455</u>
At 31 December 2011	<u>2,000</u>	<u>1,811</u>	<u>22,707</u>	<u>26,518</u>
At 1 January 2012	2,000	1,811	22,707	26,518
Change in equity:				
Total comprehensive income for the year	<u>—</u>	<u>—</u>	<u>9,735</u>	<u>9,735</u>
Dividend paid (note 9)	<u>—</u>	<u>—</u>	<u>(5,625)</u>	<u>(5,625)</u>
At 31 December 2012	<u>2,000</u>	<u>1,811</u>	<u>26,817</u>	<u>30,628</u>
At 1 January 2013	2,000	1,811	26,817	30,628
Change in equity:				
Total comprehensive income for the year	<u>—</u>	<u>—</u>	<u>25,506</u>	<u>25,506</u>
Dividend paid (note 9)	<u>—</u>	<u>—</u>	<u>(5,000)</u>	<u>(5,000)</u>
At 31 December 2013	<u>2,000</u>	<u>1,811</u>	<u>47,323</u>	<u>51,134</u>
At 1 January 2014	2,000	1,811	47,323	51,134
Change in equity:				
Total comprehensive income for the period	<u>—</u>	<u>—</u>	<u>12,519</u>	<u>12,519</u>
Appropriation of profits to statutory reserve	<u>—</u>	<u>855</u>	<u>(855)</u>	<u>—</u>
Dividend paid (note 9)	<u>—</u>	<u>—</u>	<u>(223)</u>	<u>(223)</u>
At 30 June 2014	<u>2,000</u>	<u>2,666</u>	<u>58,764</u>	<u>63,430</u>
Unaudited				
At 1 January 2013	2,000	1,811	26,817	30,628
Change in equity:				
Total comprehensive income for the period	<u>—</u>	<u>—</u>	<u>2,090</u>	<u>2,090</u>
Dividend paid (note 9)	<u>—</u>	<u>—</u>	<u>(2,000)</u>	<u>(2,000)</u>
At 30 June 2013	<u>2,000</u>	<u>1,811</u>	<u>26,907</u>	<u>30,718</u>

(a) **Paid-up capital**

RMB'000

Registered and paid-up capital:

At 1 January 2011, 31 December 2011, 1 January 2012, 31

December 2012, 1 January 2013, 31 December 2013, 1 January

2014 and 30 June 2014

2,000(b) **Statutory reserve**

The Target Company and its subsidiaries in the PRC are required to transfer 10% of their net profit, as determined in accordance with the PRC accounting rules and regulations, to statutory reserve until the reserve balance reaches 50% of their registered capital. The transfer to this reserve must be made before distribution of a dividend to shareholders.

The statutory reserve is non-distributable. They can be used to reduce previous years' losses, if any, and may be converted into share capital by the issue of new shares to owners in proportion to their existing shareholdings or by increasing the par value of the shares currently held by them, provide that the balance after such issue is not less than 25% of the registered capital.

(c) **Exchange reserves**

The exchange reserve comprises the exchange differences arising from the translation of the financial statements of the Target Group's operation outside the PRC.

(d) **Other reserves***Merger reserves*

Merger reserves represent the capital contributions from the equity holders of Caretalk, which was under common control by Zhao Zhigang, and has been accounted for by applying the principle of merger accounting.

Capital reserves

Capital reserves represent the difference between consideration paid to non-controlling interests for additional interests in a subsidiary and the proportionate share of net assets of that subsidiary.

(e) Distributability of reserves

The aggregate amount of reserves available for distribution to owners of the Target Company was RMB22,707,000, RMB26,817,000, RMB47,323,000 and RMB58,764,000 as at 31 December 2011, 2012 and 2013 and 30 June 2014, respectively, which represented the balances of retained profits.

(f) Capital management

The Target Group's primary objectives when managing capital are to safeguard the Target Group's ability to continue as a going concern, so that it can continue to provide returns for equity holders and benefits for other stakeholders with the level of risk and by securing access to finance at a reasonable cost.

The gearing ratio, representing the ratios of total borrowings, including amounts due to related parties, net of cash and cash equivalents, to the total share capital and reserves of the Target Company were all nil at each reporting period end during the Relevant Periods.

The Target Group is not subject to externally imposed capital requirements during the Relevant Periods.

21. INVESTMENTS IN SUBSIDIARIES**The Target Company**

	As at 31 December			As at
	2011	2012	2013	30 June
	RMB'000	RMB'000	RMB'000	RMB'000
Unlisted shares, at cost	<u>—</u>	<u>1,534</u>	<u>1,534</u>	<u>4,207</u>

The following list shows the particulars of subsidiaries:

Name of subsidiary	Place of incorporation and operations / date of incorporation	Equity interest attributable to the Target Group				Issued and fully paid share/registered capital	Principal activities
		As at 31 December 2011	2012	2013	As at 30 June 2014		
Dundex Medical (H.K.) Limited (“Dundex Medical”) <i>(note (a))</i>	Hong Kong 1 June 2012	—	100%	100%	100%	USD100,000	Inactive
Shenzhen Zhilang Jinggong Technology Company Limited (深圳市志朗精工科技有限公司) (“Zhilang Jinggong”) <i>(notes (b) and (c))</i>	The PRC 17 October 2012	—	38%	38%	51%	RMB3,000,000	Manufacturing and sales of plastic injection components for electro-therapeutic and physio-therapeutic devices and general medical examination devices.
Caretalk Technology Co., Ltd. (“Caretalk”) <i>(note (d))</i>	British Virgin Islands (“BVI”) 1 April 2010	100%	100%	100%	100%	USD50,000	Sales and distribution of electro-therapeutic and physio-therapeutic devices and general medical examination devices manufacturing by the Target Company

Notes:

- a. Dundex Medical is a direct wholly-owned subsidiary of the Target Company and, during the Relevant Periods, has no business activities until it takes up the entire interest of Caretalk from Zhao Zhigang under the Reorganisation.
- b. Upon the incorporation of Zhilang Jinggong, as stipulated in its Memorandum and Articles of Association, each of its shareholders, other than the Target Company, has to be an employee of the Target Company. Accordingly, despite the fact that the Target Company held 38% of the equity interest of Zhilang Jinggong during the two years ended 31 December 2012 and 31 December 2013, Zhilang Jinggong has been regarded as a subsidiary of the Target Company because, in the opinion of the Target Company, the Target Company has been able to command effective control over Zhilang Jinggong.
- c. The English name of the above PRC incorporated entity is for identification purpose only.
- d. Pursuant to the Reorganisation, Caretalk shall become a wholly-owned subsidiary of Dundex Medical, a wholly-owned subsidiary of the Target Company. Caretalk has been, since its incorporation, under common control by Zhao Zhigang, the holder of 70% of the equity interest in the Target Company. For the purpose of this report, Caretalk has been regarded and consolidated as an indirect wholly-owned subsidiary of the Target Company since its incorporation date and during the Relevant Periods, on the basis as set out in notes 2(b) and 2(d)(ii) to the Financial Information.

22. FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS

The Target Group is exposed to credit, liquidity and currency risk arises in the normal course of the Target Group's business. These risks are limited by the Target Group's financial management policies described below.

(a) Credit risk

The Target Group's credit risk is primarily attributable to trade debtors. Management has a credit policy in place and the exposure to the credit risk is monitored on an ongoing basis. Credit evaluations of its customers' financial position and condition are performed on each and every major customer periodically. These evaluations focus on the customer's past history of making payments when due and current ability to pay, and take into account information specific to the customer as well as pertaining to the economic environment in which the customer operates. The Target Group does not require collateral in respect of its financial assets. Trade receivables are usually due within 90 days.

At 31 December 2011, 2012 and 2013 and 30 June 2014, the Target Group had certain concentration of credit risk as 91%, 80%, 98% and 97% of the total trade debtors were due from the Target Group's five largest customers.

(b) Liquidity risk

The Target Group is exposed to liquidity risk of being unable to finance its future working capital and financial requirements when they fall due. To manage liquidity risk, the Target Group regularly monitors its current and expected liquidity requirements, to ensure that it maintains sufficient reserves of cash and adequate of funding from its ultimate controlling party to meet its liquidity requirements in the short term and long term. The director of the Target Company is of the opinion that the Target Group will be able to finance its future working capital and financial requirements.

The following table details the remaining contractual maturities at each reporting period end during the Relevant Periods of the Target Group's and the Target Company's financial liabilities which are based on contractual undiscounted cash flows (including interest payments computed using contractual rates or, if floating, based on rates current at each reporting period end during the Relevant Periods) and the earliest date the Target Group and the Target Company can be required to pay:

The Target Group

	Carrying amount <i>RMB'000</i>	Total contractual undiscounted cash flow <i>RMB'000</i>	Within 1 year or on demand <i>RMB'000</i>
As at 31 December 2011			
Trade and other payables	<u>27,276</u>	<u>27,276</u>	<u>27,276</u>
	<u>27,276</u>	<u>27,276</u>	<u>27,276</u>
As at 31 December 2012			
Trade and other payables	<u>27,790</u>	<u>27,790</u>	<u>27,790</u>
	<u>27,790</u>	<u>27,790</u>	<u>27,790</u>
As at 31 December 2013			
Trade and other payables	<u>37,026</u>	<u>37,026</u>	<u>37,026</u>
	<u>37,026</u>	<u>37,026</u>	<u>37,026</u>
As at 30 June 2014			
Trade and other payables	<u>28,010</u>	<u>28,010</u>	<u>28,010</u>
	<u>28,010</u>	<u>28,010</u>	<u>28,010</u>

The Target Company

	Carrying amount <i>RMB'000</i>	Total contractual undiscounted cash flow <i>RMB'000</i>	Within 1 year or on demand <i>RMB'000</i>
As at 31 December 2011			
Trade and other payables	<u>14,654</u>	<u>14,654</u>	<u>14,654</u>
	<u>14,654</u>	<u>14,654</u>	<u>14,654</u>
As at 31 December 2012			
Trade and other payables	<u>19,198</u>	<u>19,198</u>	<u>19,198</u>
	<u>19,198</u>	<u>19,198</u>	<u>19,198</u>
As at 31 December 2013			
Trade and other payables	<u>22,230</u>	<u>22,230</u>	<u>22,230</u>
	<u>22,230</u>	<u>22,230</u>	<u>22,230</u>
As at 30 June 2014			
Trade and other payables	<u>22,802</u>	<u>22,802</u>	<u>22,802</u>
	<u>22,802</u>	<u>22,802</u>	<u>22,802</u>

(c) Currency risk**(i) Exposure to currency risk**

The Target Group is exposed to currency risk primarily through sales which give rise to receivables and cash balances that are denominated in a foreign currency, i.e. a currency other than the functional currency of the operations to which the transactions relate. The currencies giving rise to this risk are primarily United States Dollars ("USD"). The Target Group does not use derivative financial instruments to hedge its foreign currency risk as it considered the impact of currency risk on the Target Group is within reasonably acceptable.

The following table details the Target Group's and the Target Company's exposure to USD at each reporting period end during the Relevant Periods to currency risk arising from recognised assets or liabilities in a currency other than the functional currency of the entity to which they relate. For presentation purposes, the amounts of the exposure are shown in Renminbi, translated using the spot rate at each reporting period end during the Relevant Periods.

The Target Group

	As at 31 December			As at 30 June
	2011	2012	2013	2014
	RMB'000	RMB'000	RMB'000	RMB'000
Trade and other receivables	3,088	8,759	10,018	9,528
Cash and cash equivalents	8,829	20,758	25,362	5,061
Trade and other payables	<u>(5,445)</u>	<u>(3,569)</u>	<u>(8,584)</u>	<u>(3,629)</u>
Gross exposure arising from recognised assets and liabilities	<u>6,472</u>	<u>25,948</u>	<u>26,796</u>	<u>10,960</u>

The Target Company

	As at 31 December			As at 30 June
	2011	2012	2013	2014
	RMB'000	RMB'000	RMB'000	RMB'000
Trade and other receivables	293	6,511	4,830	8,981
Cash and cash equivalents	536	2,388	49	520
Trade and other payables	<u>(3,315)</u>	<u>(2,819)</u>	<u>(3,110)</u>	<u>(3,613)</u>
Gross exposure arising from recognised assets and liabilities	<u>(2,486)</u>	<u>6,080</u>	<u>1,769</u>	<u>5,888</u>

(ii) *Sensitivity analysis*

The following table indicates the instantaneous change in the Target Group's and the Target Company's profit after tax (and retained profits) that would arise if foreign exchange rates to which the Target Group and the Target Company have significant exposure at each reporting period end during the Relevant Periods had changed at that date, assuming all other risk variables remained constant.

The Target Group

	As at 31 December			As at
	2011	2012	2013	30 June
				2014
Appreciation/ (depreciation) of USD against RMB	5% <u>(5%)</u>	5% <u>(5%)</u>	5% <u>(5%)</u>	5% <u>(5%)</u>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Effect on profit after tax and retained profits	299 <u>(299)</u>	1,227 <u>(1,227)</u>	1,290 <u>(1,290)</u>	499 <u>(499)</u>

The Target Company

	As at 31 December			As at
	2011	2012	2013	30 June
				2014
Appreciation/ (depreciation) of USD against RMB	5% <u>(5%)</u>	5% <u>(5%)</u>	5% <u>(5%)</u>	5% <u>(5%)</u>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Effect on profit after tax and retained profits	(124) <u>124</u>	304 <u>(304)</u>	88 <u>(88)</u>	294 <u>(294)</u>

(d) Fair value measurement

The fair values of cash and cash equivalents, trade and other receivables and payables are not materially different from their carrying amounts because of the immediate or short-term maturity of these financial instruments.

23. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

The methods, estimates and judgements the directors used in applying the Target Group's accounting policies have a significant impact on the Target Group's financial position and operating results. Some of the accounting policies require the Target Group to apply estimates and judgements, on matters that are inherently uncertain. The critical accounting judgements in applying the Target Group's accounting policies are discussed below.

(a) Depreciation and amortisation

Property, plant and equipment are depreciated on a straight-line basis over the estimates useful lives, after taking into account the estimated residual value. The management reviews annually the useful lives of an asset and its residue value, if any. The depreciation expense for future periods is adjusted if there are significant changes from previous estimation.

(b) Valuation of inventories

Inventories are stated at the lower of cost and net realisable value at each reporting period end during the Relevant Periods. Net realisable value is determined on the basis of the estimated selling price less the estimated costs necessary to make the sale. The directors estimate the net realisable value for inventories based primarily on the latest invoice prices and current market conditions. In addition, the directors perform an inventory review on a product-by-product basis at each year end date and assess the need for write down of inventories.

(c) Impairments

In considering the impairment losses that may be required for certain of the Target Group's property, plant and equipment, recoverable amount of the asset needs to be determined. The recoverable amount is the greater of the net selling price and the value in use. It is difficult to precisely estimate selling price because quoted market prices for these assets may not be readily available. In determining the value in use, expected cash flows generated by the asset are discounted to their present value, which requires significant judgement relating to items such as level of sales volume, selling price and amount of operating costs. The Target Group uses all readily available information in determining an amount that is reasonable approximation of recoverable amount, including estimates based on reasonable and supportable assumptions and projections of items.

Impairment losses for bad and doubtful debts are assessed and provided based on the directors' regular review of ageing analysis and evaluation of collectively. A considerable level of judgement is exercised by the directors when assessing the credit worthiness and past collection history of each individual customer.

An increase or decrease in the above impairment losses would affect the net profit in future years.

(d) Income tax

The Target Company, Zhilang Jinggong and Caretalk are subject to Enterprise Income Tax in the PRC. There are certain transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Target Group recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

24. COMMITMENTS**(a) Capital commitments**

As at each reporting period end during the Relevant Periods, the Target Group and the Target Company had no capital commitments outstanding not provided for in the Financial Information.

(b) Operating lease commitments

As at each each reporting period end during the Relevant Periods, the Target Group and the Target Company had total future minimum lease payments under non-cancellable operating lease as follows:

The Target Group and the Target Company

	As at 31 December			As at
	2011	2012	2013	30 June
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Within one year	1,949	3,152	3,185	3,090
In the second to fifth year inclusive	<u>5,898</u>	<u>7,991</u>	<u>4,974</u>	<u>3,465</u>
	<u><u>7,847</u></u>	<u><u>11,143</u></u>	<u><u>8,159</u></u>	<u><u>6,555</u></u>

The Target Company is the lessee in respect of a number of land and properties for an initial period of one to five years. None of the leases includes contingent rentals.

25. RELATED PARTY TRANSACTIONS**(a) Key management remuneration**

All members of key management personnel are directors of the Target Company and the details of their remuneration are disclosed in note 7.

APPENDIX II ACCOUNTANTS' REPORT ON THE TARGET GROUP

(b) Related party transactions and balances

Saved as disclosed in notes 7, 16 and 18 to the Financial Information, the Target Group has the following related party transactions:

	Year ended 31 December			Six months ended 30 June	
	2011	2012	2013	2013	2014
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
	<i>(unaudited)</i>				
Purchase of investment properties from Zhao Zhigang, a controlling shareholder and director of the Target Company	—	—	—	—	3,993

On 8 January 2014, The Target Company acquired 2 residential units located in Shenzhen, the PRC, from Zhao Zhigang at aggregate consideration of RMB3,993,000 based on 2 agreements both dated 2 January 2014.

26. ULTIMATE CONTROLLING PARTY

As at 30 June 2014 and up to the date of this report, the sole director considers ultimate controlling party of the Target Company to be Zhao Zhigang.

27. POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATION ISSUED BUT NOT YET EFFECTIVE FOR THE RELEVANT PERIODS

Up to the date of issue of these financial information, the HKICPA has issued the following amendments, new standards and interpretations which are not yet effective for the Relevant Periods and which have not been adopted in the preparation of the Financial Information.

Amendments to HKFRSs	Annual Improvements to HKFRSs 2010-2012 Cycle ¹
Amendments to HKFRSs	Annual Improvements to HKFRSs 2011-2013 Cycle ²
HKFRS 9	Financial Instruments ³
HKFRS 14	Regulatory Deferral Accounts ⁴
Amendments to HKFRS 9 and HKFRS 7	Mandatory Effective Date of HKFRS 9 and Transition Disclosures ³
Amendments to HKFRS 11	Accounting for Acquisitions of Interests in Joint Operations ⁵

Amendments to HKAS 16
and HKAS 38

Clarification of Acceptable Methods of Depreciation and
Amortisation⁵

Amendments to HKAS 19

Defined Benefit Plans: Employee Contributions²

¹ Effective for annual periods beginning on or after 1 July 2014, with limited exceptions.

² Effective for annual periods beginning on or after 1 July 2014.

³ Available for application — the mandatory effective date will be determined when the outstanding phases of HKFRS 9 are finalised.

⁴ Effective for first annual HKFRS financial statements beginning on or after 1 January 2016.

⁵ Effective for annual periods beginning on or after 1 January 2016.

The Target Group is in the process of making an assessment of what the impact of these new and revised HKFRSs is expected to be in the period of initial application. So far it has concluded that the adoption of them is unlikely to have a significant impact on the Financial Information.

C. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared for the Target Company in respect of any period subsequent to 30 June 2014.

Yours faithfully,
Crowe Horwath (HK) CPA Limited
Certified Public Accountants
Hong Kong
Leung Chun Wa
Practising Certificate Number P04963

APPENDIX III MANAGEMENT DISCUSSION AND ANALYSIS AND OTHER FINANCIAL INFORMATION OF THE TARGET GROUP

The following discussion and analysis should be read in conjunction with the accountants' report on the Target Group set out in Appendix II to this circular.

Set out below is the management discussion and analysis on the Target Group for the three financial years ended 31 December 2011, 2012 and 2013 and for the six months ended 30 June 2014:

PROSPECTS

The Group

The Group is principally engaged in distribution sale of branded imported pharmaceutical and healthcare products in the PRC. As at 31 October 2014, the Group managed a portfolio of ten categories with more than sixty products including pharmaceutical products, healthcare products, general foodstuffs and medical products from thirteen suppliers and/or manufacturers in Japan, United States, Canada, Hong Kong, Taiwan, Thailand and the PRC.

The Target Group

The Target Company is a limited company established in the PRC. It is principally engaged in the research and development, manufacturing and sales of electrotherapeutic and physiotherapeutic devices and general medical examination devices.

BUSINESS AND FINANCIAL REVIEW

Revenue

The revenue of the Target Group represents revenue generated from the business of research and development, manufacturing and sales of electrotherapeutic and physiotherapeutic devices and general medical examination devices.

Revenue is recognised when goods are delivered at the customers' premises, which is taken to be the point in time when the customer has accepted the goods and the related risks and rewards of ownership. Revenue excludes value added tax and other sales taxes and is stated after deduction of returns and discounts.

Year ended 31 December 2011

The Target Group recorded revenue of approximately RMB116,614,000 for the year ended 31 December 2011, representing an increase of approximately RMB20,428,000 or 21.2% compared to approximately RMB96,186,000 for the year ended 31 December 2010. The increase in revenue was primary due to the good performance from sales in United States and Germany.

APPENDIX III MANAGEMENT DISCUSSION AND ANALYSIS AND OTHER FINANCIAL INFORMATION OF THE TARGET GROUP

Year ended 31 December 2012

The Target Group recorded revenue of approximately RMB123,729,000 for the year ended 31 December 2012, representing an increase of approximately RMB7,115,000 or 6.1% compared to approximately RMB116,614,000 for the year ended 31 December 2011. The increase in revenue was primary due to the expansion of customer base in United Kingdom.

Year ended 31 December 2013

The Target Group recorded revenue of approximately RMB148,100,000 for the year ended 31 December 2013, representing an increase of approximately RMB24,371,000 or 19.7% compared to approximately RMB123,729,000 for the year ended 31 December 2012. The increase in revenue was primary due to the increase in sales of thermoscan thermometer in Europe.

Six months ended 30 June 2014

The Target Group recorded revenue of approximately RMB74,536,000 for the six months ended 30 June 2014, representing an increase of approximately RMB8,791,000 or 13.4% compared to approximately RMB65,745,000 for the six months ended 30 June 2013. The increase in revenue was primary due to the continuous growth in sales from North America and Europe.

Gross profit

Year ended 31 December 2011

The Target Group recorded gross profit of approximately RMB49,898,000 for the year ended 31 December 2011, representing an increase of approximately RMB10,143,000 or 25.5% compared to approximately RMB39,755,000 for the year ended 31 December 2010. The increase in gross profit was primarily driven by the increase in revenue from sales in United States and Germany.

Year ended 31 December 2012

The Target Group recorded gross profit of approximately RMB51,395,000 for the year ended 31 December 2012, representing an increase of approximately RMB1,497,000 or 3.0% compared to approximately RMB49,898,000 for the year ended 31 December 2011. The increase in gross profit was primarily driven by the increase in revenue from the expansion of customer base in United Kingdom.

Year ended 31 December 2013

The Target Group recorded gross profit of approximately RMB58,675,000 for the year ended 31 December 2013, representing an increase of approximately RMB7,280,000 or 14.2% compared to approximately RMB51,395,000 for the year ended 31 December 2012. The increase in gross profit was primarily driven by the increase in revenue from sales of thermoscan thermometer in Europe.

APPENDIX III MANAGEMENT DISCUSSION AND ANALYSIS AND OTHER FINANCIAL INFORMATION OF THE TARGET GROUP

Six months ended 30 June 2014

The Target Group recorded gross profit of approximately RMB32,615,000 for the six months ended 30 June 2014, representing an increase of approximately RMB8,546,000 or 35.5% compared to approximately RMB24,069,000 for the six months ended 30 June 2013. The increase in gross profit was primarily driven by the increase in revenue from North America and Europe.

Operating expenses (selling/distribution expenses and administration expenses)

Year ended 31 December 2011

The Target Group incurred operating expenses of approximately RMB24,766,000 for the year ended 31 December 2011, representing a decrease of approximately RMB1,489,000 or 5.7% compared to approximately RMB26,255,000 for the year ended 31 December 2010. The decrease in operating expenses was primarily to the decrease in selling and distribution expenses of approximately RMB1,764,000 mainly as a result of a reduction in salaries.

Year ended 31 December 2012

The Target Group incurred operating expenses of approximately RMB29,079,000 for the year ended 31 December 2012, representing an increase of approximately RMB4,313,000 or 17.4% compared to approximately RMB24,766,000 for the year ended 31 December 2011. The increase in operating expenses was primarily to the fact that in 2012 the Target Group made fine tuning and improvement. In line with the future strategic goals and planning of the Target Company, investment was increased in the internal control in a long run by introducing scientific management standards and operating modes. More efforts were put to the research and development of new products and production infrastructure. Market expansion activities also rolled out actively, resulting in an increase in the management expense of the Target Company in 2012.

Year ended 31 December 2013

The Target Group incurred operating expenses of approximately RMB26,606,000 for the year ended 31 December 2013, representing a decrease of approximately RMB2,473,000 or 8.5% compared to approximately RMB29,079,000 for the year ended 31 December 2012. The decrease in operating expenses was primarily to the fact that the Target Group regulated its management efficiency and improved its operating capabilities with focus on the control over labor cost. Particularly with respect to the Target Company's personnel structure, the management cost was cut significantly and the production efficiency was improved by leveraging process technologies. Therefore, the operating expenses was reduced and the profit of the Company was improved while the sales were enhanced in 2013.

More specifically, the measures the Target Group had taken in 2013 to reduce operating costs included the control of increase of investment on market development, and reduction of the workload of the management personnel of the Target Group by way of optimisation of workflow and enhancement of work efficiency. As a result, while sales revenue has been increased, the growth of staff cost was far lower than that of sales revenue.

APPENDIX III MANAGEMENT DISCUSSION AND ANALYSIS AND OTHER FINANCIAL INFORMATION OF THE TARGET GROUP

Moreover, the decrease in operating costs in 2013 as compared with that in 2012 was mainly because 2012 was the year of adjustment and improvement for the Target Group, and the Target Group has incurred substantial expenses on market development incurred in 2012. Based on its future strategic goals and plans, the Target Group increased the long-term investment in internal management, introduced a scientific standard of management and mode of operations, increased R&D investment in new products, investment in basic facilities, and introduced and implemented the management on lean production. Meanwhile, it worked actively on market development, leading to higher operating costs in 2012, the particulars of which are set out below:

Investments in 2012	Amount: RMB <i>(in ten thousand)</i>
Investment in basic R&D facilities	30
Investment in consultation service on standard operation of the Company	50
Investment in lean production	80
Increase of investment in cost of senior management personnel	108
Increase of investment in market development	337

As indicated above, the substantial decrease in operating expenses in 2013 as compared with that in 2012 was due to the Target Group's substantial investment in market development incurred in 2012. As such investment was one-off expenses in 2012, and would not recur in 2013 or thereafter, the effect of reduction in operating costs was not a one-off measure adopted for the purpose of increasing the Target Group's profit of 2013 and determining the acquisition price. Therefore, such reduction in operation costs is sustainable.

For the period from January to June 2014, sales increased by 13.4% as compared with the corresponding period in 2013; operating costs increased by 2.9% as compared with the corresponding period in 2013, which was mainly due to the increase in sales; and operating costs as a percentage of sales accounted for a decrease from 21.3% to 19.3% as compared with that in January to June 2013.

Six months ended 30 June 2014

The Target Group incurred operating expenses of approximately RMB14,389,000 for the six months ended 30 June 2014, representing an increase of approximately RMB408,000 or 2.9% compared to approximately RMB13,981,000 for the six months ended 30 June 2013. The slight increase in operating expenses was in line with the increase in revenue on a year to year basis.

The operating expenses for the six months ended 30 June 2014 mainly composed of (1) salaries of approximately RMB1,615,000 which accounts for 11.2% of the total operating expenses; (2) bonus of approximately RMB1,813,000 which accounts for 12.6% of the total operating expenses; (3) research and development costs of approximately RMB3,592,000 which accounts for 25.0% of the total operating expenses; and (4) consultancy fee of approximately RMB1,001,000 which accounts for 6.9% of the total operating expenses.

APPENDIX III MANAGEMENT DISCUSSION AND ANALYSIS AND OTHER FINANCIAL INFORMATION OF THE TARGET GROUP

Profit after income tax

Year ended 31 December 2011

The Target Group recorded profit after income tax of approximately RMB20,293,000 for the year ended 31 December 2011, representing an increase of approximately RMB5,009,000 or 32.8% compared to approximately RMB15,284,000 for the year ended 31 December 2010. The increase in profit after income tax was primarily driven by the increase in revenue from sales in United States and Germany.

Year ended 31 December 2012

The Target Group recorded profit after income tax of approximately RMB18,888,000 for the year ended 31 December 2012, representing a decrease of approximately RMB1,450,000 or 6.9% compared to approximately RMB20,293,000 for the year ended 31 December 2011. The decrease in profit after income tax was primarily due to the increase in operating expenses of approximately RMB4,313,000 which was partly off-set by the increase in gross profit of approximately RMB1,497,000.

Year ended 31 December 2013

The Target Group recorded profit after income tax of approximately RMB26,485,000 for the year ended 31 December 2013, representing an increase of approximately RMB7,597,000 or 40.2% compared to approximately RMB18,888,000 for the year ended 31 December 2012. The increase in profit after income tax was primarily driven by the increase in revenue from sales of thermoscan thermometer in Europe as well as the decrease in operating expenses.

Six months ended 30 June 2014

The Target Group recorded profit after income tax of approximately RMB15,463,000 for the six months ended 30 June 2014, representing an increase of approximately RMB8,390,000 or 118.6% compared to approximately RMB7,073,000 for the six months ended 30 June 2013. The increase in profit after income tax was primarily driven by the increase in revenue from North America and Europe.

Significant investments

There were no significant investments held by the Target Group during the financial years ended 31 December 2011, 2012 and 2013 and the six months ended 30 June 2014.

APPENDIX III MANAGEMENT DISCUSSION AND ANALYSIS AND OTHER FINANCIAL INFORMATION OF THE TARGET GROUP

Prospects for new business

Since the establishment of the Target Company, efforts have been dedicated to develop the international market of developed countries and the regional markets. The current major markets in which the Target Company operates are focused on developed countries and regions including North America, Europe, Russia, Australia and Asia Pacific regions. After completion of this transaction, the Target Company will further develop the international market through the following measures:

- (1) **Generation evolution of products:** In mature markets, a new generation of infrared thermometer products and hand-held household therapy products will gradually replace old products to maintain the market share and enhance sales revenue;
- (2) **Development of emerging markets:** Further expansion into high-end markets in developed countries, including Japan and South Korea, will be pursued. And the competition strategies of “first class products, second class prices” will be adopted to gradually create a niche for market cultivation;
- (3) **Development of both OTC and prescription markets:** In the next one to two years, in-depth development will be focused on the OTC markets in the United States and Europe;
- (4) **Cooperation with famous brands:** Cooperation with world famous enterprises will be established to develop and sell products of new technical and high technology products;
- (5) **Acquisition of downstream enterprises:** By merging with and acquisition of downstream channel vendors in the industry on an international level, a strategic capital alliance will be formed to focus on the development of a new generation of professional medical therapy equipment products.

Meanwhile, the Target Company will also strengthen the business synergy with the Group, by relying on the channels of the Group to target at the domestic household and professional markets, products with different features will be sold:

- (1) aim at target groups of household individual consumption, focus on selling household rehabilitation and therapy products, such as hand-held ultrasonic treatment device, leg and foot treatment devices, etc.;
- (2) aim at the professional market, focus on selling the second generation bench-type rehabilitation and therapy devices;

The Directors are of the view that new business brought by this transaction will provide important supplementation to the products, brands, channels, sales and earnings of the Group.

LIQUIDITY AND FINANCIAL RESOURCES

The Target Group’s sources of funding comprise mainly internal funds generated from its business operations and loan facilities provided by the banks.

APPENDIX III MANAGEMENT DISCUSSION AND ANALYSIS AND OTHER FINANCIAL INFORMATION OF THE TARGET GROUP

As at 31 December 2011, 2012, 2013 and 30 June 2014, the net current assets were RMB41,832,000, RMB53,615,000, RMB74,319,000 and RMB84,553,000 respectively and corresponding current ratios of 2.3, 2.5, 2.5 and 3.2 respectively.

Cash and cash equivalents were RMB43,840,000, RMB46,814,000, RMB64,559,000 and RMB60,397,000 as at 31 December 2011, 2012, 2013 and 30 June 2014 respectively. The vast majority of these are placed in short-term bank deposits.

CAPITAL STRUCTURE AND GEARING RATIO

As at 31 December 2011, 2012 and 2013 and 30 June 2014, the Target Group did not have any bank borrowing. As such gearing ratio are not applicable.

CAPITAL COMMITMENT, OPERATING LEASE COMMITMENTS AND CONTINGENT LIABILITIES

(a) Capital commitments

The Target Group does not have any capital commitment during the years ended 31 December 2011, 2012 and 2013 and the six months ended 30 June 2014.

The Target Group reviews opportunities from time to time to expand its businesses. As at the Latest Practicable Date, the Target Group did not have any material capital expenditure earmarked for expansion save as the maintenance capital expenditure for the ordinary course of business which was expected to be funded by internal resources and existing banking facilities. Upon completion of the Equity Transfer, the Enlarged Group will review the business plans with the Target Group and any new investments are expected to be financed by internal resources and existing facilities of the Enlarged Group.

(b) Operating lease commitments

As at each reporting period end during the Relevant Periods, the Target Group and the Target Company had total future minimum lease payments under non-cancellable operating lease as follows:

The Target Group and the Target Company

	As at 31 December			As at
	2011	2012	2013	30 June
	RMB'000	RMB'000	RMB'000	2014
				RMB'000
Within one year	1,949	3,152	3,185	3,090
In the second to fifth year inclusive	<u>5,898</u>	<u>7,991</u>	<u>4,974</u>	<u>3,465</u>
	<u>7,847</u>	<u>11,143</u>	<u>8,159</u>	<u>6,555</u>

APPENDIX III MANAGEMENT DISCUSSION AND ANALYSIS AND OTHER FINANCIAL INFORMATION OF THE TARGET GROUP

The Target Company is the lessee in respect of a number of land and properties for an initial period of one to five years. None of the leases includes contingent rentals.

(c) Contingent liabilities

The Target Group did not have any contingent liabilities for the years ended 31 December 2011, 2012 and 2013 and the six months ended 30 June 2014.

RELATED PARTY TRANSACTIONS

(a) Key management remuneration

All members of key management personnel are directors of the Target Company and the details of their remuneration are disclosed in note 7 to the Accountants' Report on the Target Group.

(b) Related party transactions and balances

Saved as disclosed in notes 7, 16 and 18 to the Accountants' Report on the Target Group, the Target Group has the following related party transactions:

	Year ended 31 December			Six months ended	
	2011	2012	2013	2013	2014
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(unaudited)	
Purchase of investment properties from Zhao Zhigang, a controlling shareholder and director of the Target Company	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>3,993</u>

On 8 January 2014, The Target Company acquired 2 residential units located in Shenzhen, the PRC, from Zhao Zhigang at aggregate consideration of RMB3,993,000 based on 2 agreements both dated 2 January 2014.

EXCHANGE RATE EXPOSURE

The Target Group is exposed to currency risk primarily through sales which give rise to receivables and cash balances that are denominated in a foreign currency, i.e. a currency other than the functional currency of the operations to which the transactions relate. The currencies giving rise to this risk are primarily United States Dollars. The Target Group does not use derivative financial instruments to hedge its foreign currency risk as it considered the impact of currency risk on the Target Group is within reasonably acceptable.

APPENDIX III MANAGEMENT DISCUSSION AND ANALYSIS AND OTHER FINANCIAL INFORMATION OF THE TARGET GROUP

The following table details the Target Group's and the Target Company's exposure to United States Dollars at each reporting period end during the Relevant Periods to currency risk arising from recognised assets or liabilities in a currency other than the functional currency of the entity to which they relate. For presentation purposes, the amounts of the exposure are shown in Renminbi, translated using the spot rate at each reporting period end during the Relevant Periods.

The Target Group

	As at 31 December			As at
	2011	2012	2013	30 June
	RMB'000	RMB'000	RMB'000	RMB'000
Trade and other receivables	3,088	8,759	10,018	9,528
Cash and cash equivalents	8,829	20,758	25,362	5,061
Trade and other payables	<u>(5,445)</u>	<u>(3,569)</u>	<u>(8,584)</u>	<u>(3,629)</u>
Gross exposure arising from recognised assets and liabilities	<u>6,472</u>	<u>25,948</u>	<u>26,796</u>	<u>10,960</u>

The Target Company

	As at 31 December			As at
	2011	2012	2013	30 June
	RMB'000	RMB'000	RMB'000	RMB'000
Trade and other receivables	293	6,511	4,830	8,981
Cash and cash equivalents	536	2,388	49	520
Trade and other payables	<u>(3,315)</u>	<u>(2,819)</u>	<u>(3,110)</u>	<u>(3,613)</u>
Gross exposure arising from recognised assets and liabilities	<u>(2,486)</u>	<u>6,080</u>	<u>1,769</u>	<u>5,888</u>

APPENDIX III MANAGEMENT DISCUSSION AND ANALYSIS AND OTHER FINANCIAL INFORMATION OF THE TARGET GROUP

INVESTMENT IN SUBSIDIARIES

The following list shows the particulars of subsidiaries:

Name of subsidiary	Place of incorporation and operations/ date of incorporation	Equity interest attributable to the Target Group				Issued and fully paid share/ registered capital	Principal activities
		As at 31 December 2011	2012	2013	As at 30 June 2014		
Dundex Medical (H.K.) Limited (“Dundex Medical”) (<i>note (a)</i>)	Hong Kong 1 June 2012	—	100%	100%	100%	USD100,000	Inactive
Shenzhen Zhilang Jinggong Technology Company Limited (深圳市志朗精工科技有限公司) (“Zhilang Jinggong”) (<i>notes (b) and (c)</i>)	The PRC 17 October 2012	—	38%	38%	51%	RMB3,000,000	Manufacturing and sales of plastic injection components for electro-therapeutic and physio-therapeutic devices and general medical examination devices.
Caretalk Technology Co., Ltd. (“Caretalk”) (<i>note (d)</i>)	British Virgin Islands (“BVI”) 1 April 2010	100%	100%	100%	100%	USD50,000	Sales and distribution of electro- therapeutic and physio- therapeutic devices and general medical examination devices manufacturing by the Target Company

Notes:

- a. Dundex Medical is a direct wholly-owned subsidiary of the Target Company and, during the Relevant Periods, has no business activities until it takes up the entire interest of Caretalk from Zhao Zhigang under the Reorganisation.
- b. Upon the incorporation of Zhilang Jinggong, as stipulated in its Memorandum and Articles of Association, each of its shareholders, other than the Target Company, has to be an employee of the Target Company. Accordingly, despite the fact that the Target Company held 38% of the equity interest of Zhilang Jinggong during the two years ended 31 December 2012 and 31 December 2013, Zhilang Jinggong has been regarded as a subsidiary of the Target Company because, in the opinion of the Target Company, the Target Company has been able to command effective control over Zhilang Jinggong.
- c. The English name of the above PRC incorporated entity is for identification purpose only.
- d. Pursuant to the Reorganisation, Caretalk shall become a wholly-owned subsidiary of Dundex Medical, a wholly-owned subsidiary of the Target Company. Caretalk has been, since its incorporation, under common control by Zhao Zhigang, the holder of 70% of the equity interest in the Target Company. For the purpose of this report, Caretalk has been regarded and consolidated as an indirect wholly-owned subsidiary of the Target Company since its incorporation date and during the Relevant Periods, on the basis as set out in notes 2(b) and 2(d)(ii) to the Accountants’ Report on the Target Group.

APPENDIX III MANAGEMENT DISCUSSION AND ANALYSIS AND OTHER FINANCIAL INFORMATION OF THE TARGET GROUP

EMPLOYEES AND REMUNERATION POLICY

The Target Group employed a total of 436, 482, 473 and 468 full-time employees as at 31 December 2011, 2012, 2013 and 30 June 2014 respectively. The Target Group's employee benefits and remuneration policy are in line with prevailing market practice, as salary increments are assessed based on the performance of individual staff; and it operates a year-end bonus distribution scheme which is determined by the profit of the Target Group to reward eligible staff on an individual performance related basis.

Total staff costs for each of the three years ended 31 December 2011, 2012 and 2013 were RMB16,590,000, RMB19,888,000 and RMB19,318,000 respectively and for the six months ended 30 June 2013 and 2014 were RMB7,831,000 and RMB9,289,000 respectively.

APPENDIX IV UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED GROUP

The following is the text of a report on the unaudited pro forma financial information of the Enlarged Group prepared for the purpose of incorporation in this circular, received from the Company's reporting accountants, Crowe Horwath (HK) CPA Limited.

A. UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED GROUP

(a) Introduction

As disclosed in the announcements of Kingworld Medicines Group Limited (the "Company") dated 8 May 2014, 31 July 2014, 30 September 2014 and 25 November 2014, Kingworld (Hong Kong) Holdings Limited (the "Purchaser"), Shenzhen Dong Di Xin Technology Company Limited (the "Target Company") and Zhao Zhigang and Zhao Wen (the "Vendors") entered into the Cooperation Agreement on 8 May 2014, pursuant to which, the Purchaser has conditionally agreed to acquire, and the Vendors have conditionally agreed to transfer 55% equity interest in the Target Company for an aggregate cash consideration of RMB189,368,000, which is equal to 55% of the Adjusted 2013 Net Profit multiplied by 13 (the "Acquisition"), subject to the acquisitions of the fair value of negative consideration in respect of the stipulated profit guarantee for the four years ending 31 December 2014, 2015, 2016 and 2017. As at the Latest Practicable Date, the Target Company is wholly-owned by the Vendors as to 70% by Zhao Zhigang and 30% by Zhao Wen. Upon completion of the Equity Transfer, equity interest in the Target Company will be owned as to 55% by the Purchaser and as to 45% by the Vendors in aggregate, and the Target Company will become a 55% indirectly owned subsidiary of the Company.

The accompanying Unaudited Pro Forma Financial Information of the Company and its subsidiaries (collectively referred to as the "Group") as enlarged by the Acquisition (together with the Group, hereinafter collectively referred to as the "Enlarged Group") has been prepared to illustrate the effect of the Acquisition.

The unaudited pro forma combined statement of financial position of the Enlarged Group is prepared as if the Acquisition had been completed on 30 June 2014 and is based on (i) the interim condensed consolidated statement of financial position of the Group as at 30 June 2014, which has been extracted from the unaudited interim report of the Company for the six months ended 30 June 2014; and (ii) the audited consolidated statement of financial position of the Target Company and its subsidiaries and include Caretalk Technology Co., Ltd. (the "Target Group") as at 30 June 2014 as extracted from the Accountants' Report thereon as set out in Appendix II to this circular, after making pro forma adjustments that are (i) directly attributable to the Acquisition; and (ii) factually supportable.

The Unaudited Pro Forma Financial Information is prepared to provide information on the Enlarged Group as a result of the Acquisition. As it is prepared for illustration purposes only, it does not purport to represent what the financial position of the Enlarged Group will be on completion of the Acquisition or any future dates.

**APPENDIX IV UNAUDITED PRO FORMA FINANCIAL INFORMATION
OF THE ENLARGED GROUP**

(b) Unaudited pro forma combined statement of financial position as at 30 June 2014

	The Group	The Target Group	Pro forma Combined Total	Pro forma adjustments		Pro forma Enlarged Group
	<i>(Note 1)</i>	<i>(Note 2)</i>			<i>Note</i>	
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>		<i>RMB'000</i>
Non-current assets						
Intangible assets	—	621	621	134,914	4(a)	135,535
Goodwill	—	—	—	74,550	3	74,550
Property, plant and equipment	5,334	6,993	12,327			12,327
Investment properties	88,810	3,560	92,370			92,370
Investment in a joint venture	42,096	—	42,096			42,096
Deposit paid for property, plant and equipment	75,000	—	75,000			75,000
Deferred tax assets	—	117	117			117
	<u>211,240</u>	<u>11,291</u>	<u>222,531</u>			<u>431,995</u>
Current assets						
Inventories	50,079	10,354	60,433			60,433
Trade and other receivables	339,417	52,482	391,899			391,899
Pledged bank deposits	49,412	—	49,412			49,412
Cash and cash equivalents	<u>161,393</u>	<u>60,397</u>	<u>221,790</u>	(33,091)	5,6	<u>188,699</u>
	<u>600,301</u>	<u>123,233</u>	<u>723,534</u>			<u>690,443</u>
Current liabilities						
Trade and other payables	181,022	28,010	209,032			209,032
Bank loans	154,535	—	154,535	158,750	5	313,285
Income tax payable	<u>7,450</u>	<u>10,670</u>	<u>18,120</u>			<u>18,120</u>
	<u>343,007</u>	<u>38,680</u>	<u>381,687</u>			<u>540,437</u>
Net current assets	<u>257,294</u>	<u>84,553</u>	<u>341,847</u>			<u>150,006</u>
Total assets less current liabilities	<u>468,534</u>	<u>95,844</u>	<u>564,378</u>			<u>582,001</u>
Non-current liabilities						
Deferred tax liabilities	<u>9,402</u>	<u>—</u>	<u>9,402</u>	20,237	4(b)	<u>29,639</u>
Net assets	<u>459,132</u>	<u>95,844</u>	<u>554,976</u>			<u>552,362</u>

**APPENDIX IV UNAUDITED PRO FORMA FINANCIAL INFORMATION
OF THE ENLARGED GROUP**

	The Group	The Target Group	Pro forma Combined Total	Pro forma adjustments		Pro forma Enlarged Group
	<i>(Note 1)</i>	<i>(Note 2)</i>			<i>Note</i>	
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>		<i>RMB'000</i>
Equity						
Capital and reserves						
Share capital	53,468	2,000	55,468	(2,000)	7	53,468
Reserves	405,664	92,083	497,747	(94,556)	6,7	403,191
	459,132	94,083	553,215			456,659
Non-controlling interests	—	1,761	1,761	93,942	7	95,703
Total equity	<u>459,132</u>	<u>95,844</u>	<u>554,976</u>			<u>552,362</u>

**APPENDIX IV UNAUDITED PRO FORMA FINANCIAL INFORMATION
OF THE ENLARGED GROUP**

(c) Notes to the Unaudited Pro Forma Financial Information

1. The financial information of the Group is extracted from the unaudited interim report of the Group for the six months ended 30 June 2014.
2. The financial information of the Target Group for the period ended 30 June 2014 is extracted from the Accountant's Report as set out in Appendix II to this circular.
3. The Group will recognise the acquisition of the Target Company as a business combination in accordance with Hong Kong Financial Reporting Standard 3 (Revised). The goodwill of RMB74,550,000 arising from the Acquisition is calculated as follows:

RMB'000

Fair values of identifiable assets acquired:

Net assets of the Target Group as at 30 June 2014 attributable to the equity holder of the Target Company	94,083
Fair value adjustments of intangible assets (<i>note 4(a),(c)</i>)	134,914
Deferred tax liabilities (<i>note 4(b)</i>)	<u>(20,237)</u>
	<u>208,760</u>
 Share of 55% equity interests of the Target Group	 114,818
Goodwill (<i>note 4(c)</i>)	<u>74,550</u>
Total consideration at fair value (<i>note 5</i>)	<u><u>189,368</u></u>

4. (a) This represents the excess of the estimated fair value of intangible assets held by the Target Group at 30 June 2014 over their carrying amount, of RMB134,914,000. In the opinion of the Directors of the Company, the fair value of the intangible assets at 30 June 2014 is assumed to be RMB135,535,000, represented by the Target Group's Patents of RMB42,836,000 and Customers' Relationship of RMB92,699,000, which has taken into consideration of a valuation report at 30 June 2014, prepared using excess earning method under income approach by Roma Appraisals Limited ("ROMA"), a firm of independent qualified valuers not connected with the Group.
- (b) Deferred tax of RMB20,237,000 is provided on the fair value adjustment of the intangible assets of RMB134,914,000 at a preferential PRC Enterprise Income Tax rate of 15%.
- (c) The Directors of the Company have assessed whether there is any impairment on the intangible assets and goodwill as at 30 June 2014 as disclosed in the combined statement of financial position of the Enlarged Group in accordance with Hong Kong Accounting Standard 36 "Impairment of Assets". Based on the valuations for the intangible assets and the business valuation of the Target Group at 30 June 2014 performed by ROMA, the Directors have concluded that there is no impairment of the

APPENDIX IV UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED GROUP

intangible assets and goodwill. The Directors have confirmed that they will apply consistent accounting policies and principal assumptions as used in the valuation report and pro forma financial information to assess impairment of intangible assets and goodwill in subsequent reporting periods.

- (d) On Completion, the fair value of the identifiable assets, liabilities and contingent liabilities of the Target Group and the fair value of the negative consideration, which represents shortfall between the future audited profits and the Guaranteed Profits for the four years ending 31 December 2014, 2015, 2016 and 2017 (note 5 below) will have to be reassessed. Accordingly, the value of the intangible assets and goodwill of the Target Group at the date of completion may be different from that presented above.
5. This represents the cash consideration of the Acquisition of RMB189,368,000 to be paid out by internal resources of the Group of RMB30,618,000 and bank borrowing of HKD200,000,000 (equivalent to approximately RMB158,750,000). In accordance with the Cooperation Agreement, the cash consideration is equal to 55% of the Adjusted 2013 Net Profit of RMB26,485,000 per stated in the consolidated statement of profit or loss in the Accountants' Report of the Target Group as set out in Appendix II to this Circular, multiplied by 13.

Pursuant to the Cooperation Agreement, the Vendors have guaranteed to the Purchaser that the Net Profit will not be less than RMB29,134,000, RMB32,047,000, RMB35,252,000 and RMB38,777,000 (the "Guaranteed Profits") for the four years ending 31 December 2014, 2015, 2016 and 2017, respectively.

The Vendors and the Target Company have irrevocably agreed that the Vendors shall make cash reimbursement to the Purchaser within 18 Business Days from the date of issuance of the audited accounts of the Target Group for the relevant year, in the amount being the difference between the actual Net Profit and the Guaranteed Profits for that year, multiplied by 55%.

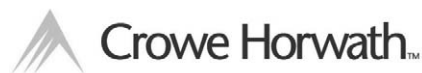
The directors of the Company has reviewed the profits forecast for 5 years prepared by the Target Company. As at the date of this Unaudited Pro Forma Financial Information, the directors of the Company expect the results of the Target Group, as estimated in the profits forecast for 5 years, will not be less than the Guaranteed Profits. Accordingly the directors of the Company are of the opinion that the fair value of the contingent consideration receivable from the Vendors being the shortfall between the Net Profit and the Guaranteed Profits multiplied by 55% are considered to be zero.

6. This represents the total estimated acquisition-related costs for the Acquisition of the Target Group of approximately RMB2,473,000 which is to be incurred and to be charged to consolidated profit or loss upon the completion of the Acquisition.
7. This represents the elimination of registered paid-up capital and pre-acquisition reserves, and the recognition of non-controlling interests of the Target Company of RMB2,000,000, RMB92,083,000 and RMB93,942,000, respectively, upon Completion of the Acquisition.

APPENDIX IV UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED GROUP

B. ACCOUNTANTS' REPORT ON UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED GROUP

The following is the text of the report, prepared for the purpose of incorporation in this circular, received from the reporting accountants of the Company, Crowe Horwath (HK) CPA Limited, Certified Public Accountants, Hong Kong.



國富浩華(香港)會計師事務所有限公司
Crowe Horwath (HK) CPA Limited
Member Crowe Horwath International
9/F Leighton Centre,
77 Leighton Road,
Causeway Bay, Hong Kong

31 December 2014

The Directors
Kingworld Medicines Group Limited

Dear Sirs

We report on the unaudited pro forma financial information (the “Unaudited Pro Forma Financial Information”) of Kingworld Medicines Group Limited (the “Company”) and its subsidiaries (collectively referred to as the “Group”) as set out in Section A in Appendix IV to the circular dated 31 December 2014 (the “Circular”) issued by the Company, which has been prepared by the directors of the Company, for illustrative purposes only, to provide information about how the proposed acquisition of the 55% equity interest in Shenzhen Dong Di Xin Technology Company Limited (the “Target Company”) (together with the Group, hereinafter collectively referred to as the “Enlarged Group”) might have affected the financial information presented. The basis of preparation of the Unaudited Pro Forma Financial Information is set out in Section A of Appendix IV to the Circular.

Respective responsibilities of directors of the Company and the reporting accountants

It is the responsibility solely of the directors of the Company to prepare the Unaudited Pro Forma Financial Information in accordance with paragraph 29 of Chapter 4 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”) and with reference to Accounting Guideline 7 “Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars” issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”).

It is our responsibility to form an opinion, as required by paragraph 29(7) of Chapter 4 of The Listing Rules, on the Unaudited Pro Forma Financial Information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the Unaudited Pro Forma Financial Information beyond that owned to those to whom those reports were addressed by us at the dates of their issue.

APPENDIX IV UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED GROUP

Basis of opinion

We conducted our engagement in accordance with Hong Kong Standard on Assurance Engagements 3420 “Assurance Engagements to Report on the Compilation of Pro Forma Financial Information Included in a Prospectus” issued by the HKICPA. This standard requires that the reporting accountant comply with ethical requirements and plan and perform procedures to obtain reasonable assurance about whether the directors have complied the Unaudited Pro Forma Financial Information in accordance with paragraph 29 of Chapter 4 of The Listing Rules and with reference to Accounting Guideline 7 “Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars” issued by the HKICPA.

For purpose of this engagement, we are not responsible for updating or reissuing any reports or opinions on any historical financial information used in compiling the Unaudited Pro Forma Financial Information, nor have we, in the course of this engagement, performed an audit or review of the financial information used in compiling the Unaudited Pro Forma Financial Information.

The purpose of Unaudited Pro Forma Financial Information included in an investment circular is solely to illustrate the impact of a significant event or transaction on unadjusted financial information of the Group as if the event had occurred or the transaction had been undertaken at an earlier date selected for purpose of the illustration. Accordingly, we do not provide any assurance that the actual outcome of the event or transaction at the specific dates would have been as presented.

A reasonable assurance engagement to report on whether the Unaudited Pro Forma Financial Information has been properly compiled on the basis of the applicable criteria involves performing procedures to assess whether the applicable criteria used by the directors in the compilation of the Unaudited Pro Forma Financial Information provide a reasonable basis for presenting the significant effects directly attributable to the event or transaction, and to obtain sufficient appropriate evidence about whether:

- The related pro forma adjustments give appropriate effect to those criteria; and
- The Unaudited Pro Forma Financial Information reflects the proper application of those adjustments to the unadjusted financial information.

The procedures selected depend on the reporting accountant’s judgement, having regard to the reporting accountant’s understanding of the nature of the Group and the Target Group, the event or transaction in respect of which the Unaudited Pro Forma Financial Information has been compiled, and other relevant engagement circumstances.

The engagement also involves evaluating the overall presentation of the Unaudited Pro Forma Financial Information.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

**APPENDIX IV UNAUDITED PRO FORMA FINANCIAL INFORMATION
OF THE ENLARGED GROUP**

Opinion

In our opinion

- (a) the Unaudited Pro Forma Financial Information has been properly compiled on the basis stated;
- (b) such basis is consistent with the accounting policies of the Group; and
- (c) the adjustments are appropriate for the purpose of the Unaudited Pro Forma Financial Information as disclosed pursuant to paragraph 4.29(1) of the Listing Rules.

Yours faithfully,

Crowe Horwath (HK) CPA Limited
Certified Public Accountants
Hong Kong

Leung Chun Wa
Practising Certificate Number P04963

1. RESPONSIBILITY STATEMENT

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this circular misleading.

2. DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS

As at the Latest Practicable Date, the interests and short positions of the Directors and the chief executive of the Company in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) which were required (i) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO); or (ii) pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (iii) pursuant to the Model Code, to be notified to the Company and the Stock Exchange, were as follows:

Long positions in the Shares and underlying Shares

Name of Director	Nature of Interest	Number of Shares/ underlying Shares	Total interests as to % of the issued share capital of the Company as at the Latest Practicable Date
Mr. Zhao	Beneficial owner, interest of a controlled corporation, interest of spouse	393,920,250	63.28
Ms. Chan	Interest of a controlled corporation, interest of spouse	393,920,250	63.28
Zhou Xuhua	Interest of spouse	3,800,000	0.61
Zhang Yi	Interest of a controlled corporation	62,250,000	10.00

Notes:

1. Mr. Zhao is the beneficial owner of 6,108,000 Shares. He is also deemed (by virtue of the SFO) to be interested in 387,812,250 Shares. These Shares are held in the following capacities:
 - (a) 297,812,250 Shares are held by Golden Land, which is wholly owned by Mr. Zhao.
 - (b) 90,000,000 Shares are indirectly held by Ms. Chan, wife of Mr. Zhao, through Golden Morning, which is wholly owned by Ms. Chan.

2. Ms. Chan is deemed (by virtue of the SFO) to be interested in 393,920,250 Shares. These Shares are held in the following capacities:
 - (a) 6,108,000 Shares are directly held by Mr. Zhao, husband of Ms. Chan.
 - (b) 387,812,250 Shares are indirectly held by Mr. Zhao, through Golden Land, which is wholly owned by Mr. Zhao.
 - (c) 90,000,000 Shares are held by Golden Morning, which is wholly owned by Ms. Chan.
3. Zhou Xuhua is deemed (by virtue of the SFO) to be interested in 3,800,000 Shares, which are held by his spouse, Huang Xiao Li.
4. The long position represents the interests in the 62,250,000 Shares to be allotted and issued upon the full exercise of the conversion rights attached to the convertible bond in the principal amount of HK \$133,837,500 at an initial conversion price of HK\$2.15 issued by the Company on 17 December 2014. Shine Light Investment Fund is deemed to be interested in such underlying Shares within the meaning of Part XV of the SFO by virtue of a concert party agreement with Legend Times Corporation Limited. Hwabao Trust Co. Ltd* (華寶信託有限責任公司) holds 95,000 non-voting shares in Shine Light Investment Fund, representing approximately 99.89% of the issued share capital of Shine Light Investment Fund, as the trustee of a fixed trust which the beneficiary is Shanghai Shengzhong Investment Management Partnership Enterprise (Limited Partnership)* (上海聖眾投資管理合夥企業). Mr. Zhang Yi controls one-third of the voting power at matters of Shanghai Shengzhong Investment Management Partnership Enterprise (Limited Partnership). Hence, Mr. Zhang Yi is deemed to be interested in 62,250,000 underlying Shares within the meaning of Part XV of the SFO.

Long position in the shares and underlying shares of the associated corporations of the Company

Name of Director	Name of associated corporation	Nature of interest	Total interests as to % of the issued share capital of the associated corporation as at the Latest Practicable Date
Mr. Zhao	Golden Land	Beneficial owner	100
Ms. Chan	Golden Morning	Beneficial owner	100

Save as disclosed above, as at the Latest Practicable Date, none of the Directors or chief executives of the Company had any interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required (i) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including any interests or short positions which they were taken or deemed to have under such provisions of the SFO); or (ii) pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (iii) pursuant to the Model Code, to be notified to the Company and the Stock Exchange.

As at the Latest Practicable Date, Mr. Zhao is the sole director of Golden Land and Ms. Chan is the sole director of Golden Morning. Each of Golden Land and Golden Morning was a company having, as at the Latest Practicable Date, an interest or short position in the Company's shares and underlying shares which would fall to be disclosed to the Company and the Stock Exchange under the provision of Divisions 2 and 3 of Part XV of the SFO.

3. DIRECTORS' INTEREST IN COMPETING BUSINESS, CONTRACTS AND ASSETS**(a) Interests in competing business**

As at the Latest Practicable Date, the Directors were not aware that any of the Directors and their respective associates had interest in any business which competes or is likely to compete, either directly or indirectly, with the businesses of the Group.

(b) Interests in assets

As at the Latest Practicable Date, save as the following leases, none of the Directors had any direct or indirect interest in any assets which have been, since 31 December 2013 (being the date to which the latest published audited accounts of the Group were made up), acquired or disposed of by or leased to any member of the Enlarged Group, or are proposed to be acquired or disposed of by or leased to any member of the Enlarged Group:

- (a) by SZ Kingworld from SZ Industry, an indirect wholly-owned subsidiary of Kingkok Investment Holdings Limited (金國投資控股有限公司), which is held as to 80% by Mr. Zhao and 20% by Ms. Chan, in respect of:
 - (i) the external wall on 4/F of the west side of Jin Shi Jie Business Center, Dongmen, Shenzhen (深圳東門金世界商業中心西面四樓外牆), with a site area of approximately 27 sq.m., for advertising purpose, for a term commencing from 1 January 2014 to 31 December 2014 at a monthly rental of RMB12,500;
 - (ii) Room 201, Building 331, Lian Tang Gang Lian Er Cun, Shenzhen (深圳市蓮塘港蓮二村331棟201室), with a site area of approximately 78 sq.m., as accommodation for senior executives, for a term commencing from 1 July 2014 to 30 June 2015 at a monthly rental of RMB1,172.1;
 - (iii) Rooms 1001-1008, Block A and Room 1505, Block C, Tian An International Building, Shenzhen (深圳市天安國際大廈A座1001-1008室及C座1505室), with a total site area of approximately 935 sq.m., for office use, for a term commencing from 1 July 2014 to 30 June 2015 at a total monthly rental of RMB45,776.5; and
 - (iv) Residential Unit, Room 602, Unit 1, Shen Hua Apartment House, Mei Hua Road, Shenzhen (深圳市梅華路深華公寓1單元602室住宅用房), with a site area of approximately 46.54 sq.m., for staff dormitory, for a term commencing from 1 April 2014 to 30 June 2015 at a monthly rental of RMB1,800.

- (b) by SZ Kingworld from Shenzhen Kingworld Lifeshine Pharmaceutical Company Limited (深圳金活利生藥業有限公司), a direct wholly-owned subsidiary of Morning Gold Medicine Company Limited (金辰醫藥有限公司), which is held as to 51% by Mr. Zhao and 49% by Ms. Chan, in respect of:

Type C5, San Lian He Sheng Industrial Zone, Buji, Longgang District, Shenzhen (深圳市龍崗區布吉三聯和生工業區C5型), with a site area of 1,218.75 sq.m. in aggregate, for warehouse purpose, for a term commencing from 1 September 2014 to 16 December 2014 at a monthly rental of RMB30,468.75.

(c) **Interests in contract or arrangement**

Save as the following continuing connected transactions as disclosed in the circular of the Company dated 7 December 2012, as at the Latest Practicable Date, none of the Directors was materially interested in any contract or arrangement, subsisting at the Latest Practicable Date, which is significant in relation to the business of the Enlarged Group:

- (a) the master distribution agreement dated 16 November 2012 (the “**Yuen Tai Master Distribution Agreement**”) entered into between the Company and Yuen Tai Pharmaceuticals Limited (遠大製藥廠有限公司) (“**Yuen Tai**”), pursuant to which members of the Group will purchase pharmaceutical and healthcare products from Yuen Tai and act as the exclusive distributor for distribution of such pharmaceutical and healthcare products in the PRC for a term of three years with effect from 1 January 2013 and ending on 31 December 2015 (both days inclusive); the terms and conditions (including but not limited to the prices) on which the pharmaceutical and healthcare products are to be purchased by members of the Group should be on normal commercial terms and no less favourable than those obtained from independent third parties by such member of the Group. The annual caps under the Yuen Tai Master Distribution Agreement for the years ended or ending 31 December 2013, 2014 and 2015 respectively were RMB17,390,000, RMB25,220,000 and RMB33,520,000 respectively; and
- (b) the master distribution agreement dated 16 November 2012 (the “**SZ Kingworld Lifeshine Master Distribution Agreement**”) entered into between the Company and 深圳金活利生藥業有限公司 (Shenzhen Kingworld Lifeshine Pharmaceutical Company Limited*) (“**SZ Kingworld Lifeshine**”), pursuant to which members of the Group will purchase pharmaceutical and healthcare products from SZ Kingworld Lifeshine and act as the exclusive distributor for distribution of such pharmaceutical and healthcare products in the PRC; the terms and conditions (including but not limited to the prices) on which the pharmaceutical and healthcare products are to be purchased by members of the Group should be on normal commercial terms and no less favourable than those obtained from Independent Third Parties by such member of the Group. The annual caps under the SZ Kingworld Lifeshine Master Distribution Agreement for the years ended or ending 31 December 2013, 2014 and 2015 respectively were RMB56,440,000, RMB67,730,000 and RMB81,270,000 respectively.

4. DIRECTORS' SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors had entered, or was proposing to enter, into any service contract with any member of the Enlarged Group which is not expiring or determinable by such member of the Enlarged Group within one year without payment of any compensation (other than statutory compensation).

5. MATERIAL CONTRACTS

The following material contracts, not being contracts entered into in the ordinary course of business of the Enlarged Group, have been entered into by members of the Enlarged Group within two years immediately preceding the Latest Practicable Date:

- (a) the non-binding (save for several clauses mainly relating to confidentiality and governing law) memorandum of understanding dated 22 July 2013 entered into between the Company and Kang Ming (for himself and all the other shareholders of Min Kang in respect of the proposed acquisition of 60% direct or indirect equity interest in Min Kang by the Company or its subsidiary for a consideration of not less than RMB30,000,000, the details of which are set out in the announcements of the Company dated 22 July 2013 and 24 January 2014 respectively;
- (b) the First MOU, details of which are set out in the announcement of the Company dated 23 February 2014 and in the section headed "Material Changes" in Appendix I to this circular;
- (c) the supplemental memorandum of understanding dated 28 February 2014 entered into amongst the Purchaser, Wu Hu Medicine, Mr. Wang and Ms. Wang to amend certain terms of the First MOU, details of which are set out in the announcement of the Company dated 28 February 2014;
- (d) the agreement of intent dated 3 May 2014 entered into between the Company and Zhao Zhigang (for himself and for and on behalf of Zhao Wen) in respect of the same transactions as contemplated under the Cooperation Agreement, details of which are set out in the announcement of the Company dated 3 May 2014;
- (e) the Cooperation Agreement;
- (f) the instrument of transfer dated 21 May 2014 entered into between Dundex Medical and Zhao Zhigang in respect of the acquisition of 100% issued shares in Caretalk by Dundex Medical from Zhao Zhigang for a consideration of US\$50,000;
- (g) the tenancy agreement dated 26 June 2014 entered into between the Target Company as landlord and Shenzhen Ganlu Jewellery Co., Ltd.* (深圳市甘露珠寶首飾有限公司) as tenant in relation to the lease of the residential premises located at 21F, Wei Fu Building, Taibai Road, Luohu District, Shenzhen* (深圳市羅湖區太白路維富大廈21F) for a term commencing from 1 June 2014 until 31 May 2015 for a monthly rental of RMB2,900;

- (h) the tenancy agreement dated 26 June 2014 entered into between the Target Company as landlord and Shenzhen Maruisha Trading Co., Ltd.* (深圳市瑪瑞莎貿易有限公司) as tenant in relation to the lease of the residential premises located at 7E, Wei Fu Building, Taibai Road, Luohu District, Shenzhen* (深圳市羅湖區太白路維富大廈7E) for a term commencing from 14 May 2014 until 13 May 2015 for a monthly rental of RMB3,640; and
- (i) the subscription agreement entered into between the Company and 國藥集團資本管理有限公司 (Sinopharm Capital Management Company Limited*) on 15 September 2014 in relation to the issue of the convertible bond in an aggregate principal amount of HK\$133,837,500 (the “**Original Subscription Agreement**”), as amended and supplemented by the letters of confirmation dated 17 September 2014 and 19 September 2014 respectively and the supplemental agreement to the Original Subscription Agreement dated 9 October 2014.

6. MATERIAL LITIGATION

As at the Latest Practicable Date, no litigation or claim of material importance is known to the Directors to be pending or threatened against any member of the Enlarged Group.

7. EXPERT’S QUALIFICATION AND CONSENT

The following is the qualifications of the expert who has given an opinion or advice contained in this circular:

Name	Qualification
Crowe Horwath (HK) CPA Limited	certified public accountants

Crowe Horwath (HK) CPA Limited has given and has not withdrawn its written consent to the issue of this circular with the inclusion of its report and letter as set out in this circular and references to its name in the form and context in which it appear in this circular.

As at the Latest Practicable Date, Crowe Horwath (HK) CPA Limited did not have any shareholding in any member of the Group or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group.

As at the Latest Practicable Date, Crowe Horwath (HK) CPA Limited did not have any direct or indirect interest in any assets which since 31 December 2013, being the date to which the latest published audited accounts of the Group were made up, have been acquired or disposed of by or leased to any member of the Enlarged Group, or are proposed to be acquired or disposed of by or leased to any member of the Enlarged Group.

8. MISCELLANEOUS

- (a) The company secretary of the Company is Mr. Chan Hon Wan, an associate member of the Institute of Chartered Accountants in Australia and an associate member of the Hong Kong Institute of Certified Public Accountants.
- (b) The English text of this circular shall prevail over the Chinese text.

9. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection at the Company's principal place of business in Hong Kong, which is Units 1906-1907, 19th Floor, Shui On Centre, 6-8 Harbour Road, Wanchai, Hong Kong, during normal business hours from 9:00 a.m. to 5:00 p.m. for a period of 14 days (other than Saturdays, Sundays, and public holidays) from the date of this circular:

- (a) the memorandum and articles of association of the Company;
- (b) the written consent referred to in the paragraph headed "Expert's Qualification and Consent" in this appendix;
- (c) the annual reports of the Company for each of the three years ended 31 December 2011, 2012 and 2013 respectively;
- (d) the accountants' report of Crowe Horwath (HK) CPA Limited dated 31 December 2014 on the financial information of the Target Group, the text of which is set out in Appendix II to this circular;
- (e) the letter from Crowe Horwath (HK) CPA Limited dated 31 December 2014 in respect of the unaudited pro forma financial information on the Enlarged Group, the text of which is set out in Appendix IV to this circular;
- (f) the material contracts referred to in the paragraph headed "Material Contracts" in this appendix;
- (g) the circular of the Company dated 14 November 2014; and
- (h) this circular.

NOTICE OF EXTRAORDINARY GENERAL MEETING



KINGWORLD MEDICINES GROUP LIMITED

金活醫藥集團有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code : 01110)

NOTICE OF EXTRAORDINARY GENERAL MEETING

NOTICE IS HEREBY GIVEN THAT the an extraordinary general meeting (the “**Meeting**”) of Kingworld Medicines Group Limited (the “**Company**”) will be held at 11:00 a.m. on Friday, 23 January 2015 (and any adjournment thereof), at the Company’s principal place of business in Hong Kong, which is Units 1906-1907, 19th Floor, Shui On Centre, 6-8 Harbour Road, Wanchai, Hong Kong, for the purpose of considering and, if thought fit, passing with or without modifications the following resolution as ordinary resolution of the Company:

ORDINARY RESOLUTION

“**THAT:**

- (a) the cooperation agreement dated 8 May 2014 entered into among Kingworld (Hong Kong) Holdings Limited (the “**Purchaser**”), Shenzhen Dong Di Xin Technology Company Limited* (深圳市東迪欣科技有限公司) (the “**Target Company**”), Zhao Zhigang (趙志剛) and Zhao Wen (趙雯) (together the “**Vendors**”), in relation to the acquisition of 55% equity interest in the Target Company (as supplemented and amended on 31 July 2014, 30 September 2014 and 25 November 2014 respectively) (the “**Cooperation Agreement**”) (a copy of which has been produced to the Meeting, marked “A” and initialled by the Chairman of the Meeting for the purpose of identification), and the transactions contemplated thereunder be and are hereby approved, confirmed and ratified; and
- (b) any director of the Company be and is hereby authorised to do such acts and things, to sign and execute all such further documents (including without limitation the equity transfer agreement and the joint venture agreement referred to in the Cooperation Agreement, and, in case of execution of documents under seal, to do so by any two directors of the Company or any two persons appointed by the board of directors of the Company for that purpose) and to take such steps as he/she may consider necessary, appropriate, desirable or expedient to give effect to or in connection with the Cooperation Agreement and all transactions contemplated thereunder and all other matters incidental thereto or in connection therewith, and to agree to and make such variations, amendments or waivers of any of the matters relating thereto or in connection therewith.”

By order of the board of
Kingworld Medicines Group Limited
Zhao Li Sheng
Chairman

NOTICE OF EXTRAORDINARY GENERAL MEETING

Hong Kong, 31 December 2014

Notes:

1. A shareholder entitled to attend and vote at the Meeting is entitled to appoint another person as his proxy to attend and vote instead of him. A shareholder who is the holder of two or more shares may appoint more than one proxy to represent him and vote on his behalf at the Meeting. A proxy need not be a member of the Company but must be present in person to represent him.
 2. To be valid, the form of proxy together with a power of attorney or other authority, if any, under which it is signed or a notarially certified copy of such power or authority must be deposited at the offices of the Company's branch share registrar in Hong Kong, Tricor Investors Services Limited ("**Branch Registrar**"), at Level 22, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong no less than 48 hours before the time appointed for holding of the Meeting or any adjournment thereof.
 3. Completion and return of the form of proxy will not preclude a shareholder from attending and voting in person at the Meeting or any adjournment thereof and in such event, the instrument appointing a proxy shall be deemed to be revoked.
 4. In the case of joint registered holders of a share in the Company, any one of such joint holders may vote, either personally or by proxy, in respect of such share as if he/she were solely entitled thereto, but if more than one of such joint holders are present at the Meeting personally or by proxy, that one of the said persons so present whose name stands first on the register of members of the Company in respect of such share shall alone be entitled to vote in respect thereof.
 5. The register of members of the Company will be closed from Wednesday, 21 January 2015 to Friday, 23 January 2015 (both days inclusive) during which period no transfer of shares will be registered. To be qualified for attending and voting at the Meeting, all share transfer documents must be lodged with the Branch Registrar at Level 22, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, for registration on or before 4:30 p.m. on Tuesday, 20 January 2015.
- * denotes an English translation of a Chinese name and is for identification purposes only.